



# **The Office of Communications Annual Report and Accounts**

For the period 1 April 2012 to 31 March 2013

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For the period 1 April 2012 to 31 March 2013

Report and Accounts presented to  
Parliament pursuant to Paragraphs  
11 and 12 of Schedule 1 of the  
Office of Communications Act 2002.

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# Who we are and what we do

## The Office of Communications (Ofcom) is the UK's independent communications regulator.

We regulate the TV and radio sectors, fixed-line telecoms, mobiles, postal services, and the airwaves over which wireless devices operate.

We seek to ensure that people in the UK get the best from their communications services and are protected from scams and sharp practices, while ensuring that competition can thrive.

Established under the Office of Communications Act 2002, Ofcom operates under a number of Acts of Parliament and other legislation. These include the Communications Act 2003, the Wireless Telegraphy Act 2006, the Broadcasting Acts 1990 and 1996, the Digital Economy Act 2010 and the Postal Services Act 2011.

The Communications Act 2003 states that Ofcom's principal duty is to further the interests of citizens in relation to communications matters and to further the interests of consumers in relevant markets, where appropriate by promoting competition. This underpins much of what we do.

We are involved in advising on and setting some of the more technical aspects of regulation, as well as on implementing and enforcing communications law, competition and consumer protection laws.

Ofcom is funded by fees from industry for regulating broadcasting and communications networks, and grant-in-aid from the UK Government for undertaking concurrent competition regulation and managing radio spectrum. We work independently, free from political influence.

### What we do

Our main legal duties are to ensure that:

- the UK has a wide range of electronic communications services, including high-speed services such as broadband;
- a wide range of high-quality television and radio programmes are provided by a range of different organisations, appealing to a range of tastes and interests;
- people who watch television and listen to the radio are protected from harmful or offensive material. We handle complaints about television and radio broadcasting and assess each complaint against the Broadcasting Code or other relevant codes or licence conditions;

- people are protected from being treated unfairly in television and radio programmes, and from having their privacy unwarrantedly invaded;
- the radio spectrum (the airwaves used by everyone from taxi firms and boat owners, to mobile-phone companies and broadcasters) is used in the most effective way; and
- the universal service in postal services is provided in the UK.

### What we do not do

Ofcom has powers to enforce consumer law on behalf of consumers generally. Ofcom does not have the power to resolve individual consumer complaints about communications services, unlike TV and radio, but we provide advice to complainants and refer them to the two Alternative Dispute Resolution (ADR) schemes that we have approved.

# Chairman's message

## Colette Bowe

Ofcom is now in its tenth year, and the past 12 months have been among the most absorbing so far in our existence.

The completion of the 4G auction saw Ofcom's work firmly in the headlines.

By contrast, our role in ensuring the smooth working of the vast array of communications devices needed to stage a successful London 2012 Olympic Games and Paralympic Games took place behind the scenes. But these two big set pieces tell only a partial story of Ofcom's past year. In between lay a huge amount of detailed, often highly technical work to ensure that the UK's communications markets remain among the most competitive in the world and continue to deliver for consumers and citizens.

I am proud to have been associated with Ofcom from the very beginning, first as Chairman of the Communications Consumer Panel, then as a member of Ofcom's Board, and for the past four years as its Chairman. During that time, consumers' expectations and demands of their communications services have intensified and diversified, alongside the emergence of new business models and technologies. Ofcom has continued to respond effectively to this rapidly evolving environment. Satisfaction among users of communications services remains high.

Competition between providers remains strong. Consumer protection is, on the whole, effective and proportionate. As I prepare to hand over to a new Chairman in 2014, I take satisfaction in this overall picture, while also being acutely aware that many challenges remain.

Key among these is the role that the UK's communications services play in supporting economic growth and innovation. Ofcom's actions, from the functional separation of BT to work now under way to bring spectrum-efficient "white space" technology into use, have often led the way in Europe and elsewhere. Most importantly, they have helped to stimulate competitive pressure that bears down on prices for all consumers, domestic and business alike. As the transition to superfast data continues, with 4G already here and fixed-line fibre take-up increasing strongly, the proportion of economic activity dependent on communications services will continue to grow. We have to ensure that Ofcom's regulatory interventions continue to support this trend.

In supporting growth, as in our other activities, our status as an independent statutory regulator is vital, and something both I and the Board take extremely seriously. As a competition authority, the need for us to take decisions free from potential political interference is widely understood, as is the necessity of such a status in examining the public interest in media mergers.

But even where our duty is to provide advice or recommendations to Parliament or government, it is critical that we do so from the perspective of what is in the interests of citizens and consumers. Being independent does not mean being unaccountable – indeed, we take our formal accountability to Parliament equally seriously and in the past year have been subjected to scrutiny in areas such as convergence, stamp prices, broadband and media plurality. It does mean maintaining a dispassionate and distinct voice within those duties set down for us by Parliament.

As ever, in carrying out those duties our work is greatly assisted by the work of our advisory committees for England, Scotland, Wales, Northern Ireland and on Older and Disabled people, as well as the Communications Consumer Panel and the Content Board. The past year has seen a number of changes to the membership of these bodies, so I would in particular like to thank those who have departed, and welcome those new members.



**Colette Bowe**  
Chairman

# Chief Executive's Report

## Ed Richards

At 2.27pm on Tuesday 26th February, a number flickered on to a computer screen in a secure room at Ofcom's London offices. This was the 646th bid placed in our 4G auction. It was also the last.

After more than 50 rounds of bidding, which had seen companies competing for the valuable spectrum at 800 MHz and 2.6 GHz, the final stage in the auction was now complete. 4G licences were later awarded to five companies, enabling them to launch superfast mobile broadband services for consumers.

This marked the end of more than four years' work at Ofcom to consult on, design and conduct the auction. This was enabled by the successful completion of digital TV switchover and the delivery of the London 2012 Olympic Games and Paralympic Games, which used some of the spectrum.

The auction met all of our objectives and will deliver significant benefits to UK businesses and consumers for many years. The auction was an efficient means of allocating a scarce resource that led to a competitive outcome. With up to five companies able to launch 4G services, this is good for innovation and price competition. The outcome will lead to widespread coverage of 4G services across the UK, covering 98 per cent of the UK population indoors – and even greater outdoors.

This will further maintain the UK's position as one of the most competitive and innovative mobile markets in Europe.

### Looking beyond 4G

Having completed the 4G auction, we are already considering how we can clear and release another significant part of the spectrum in the future to meet consumers' growing demand for mobile connectivity. In November, we published research that revealed that every month some 20m gigabytes of data is consumed over the UK's mobile networks. To put this in context, this is the equivalent of downloading five billion music tracks and is more than twice as much data downloaded compared to the previous year.

Because spectrum is a finite resource, we began a significant project in 2012/13 to establish how we might free up more airwaves in the prime 700 MHz band for the next generation of mobile services to meet this demand. The spectrum could be available after 2018.

### Investment in superfast broadband

The work we are doing to ensure there is sufficient spectrum to meet demand is an example of a major piece of work in which we take a long-term strategic perspective, and where the policy will bear fruit in a number of years' time.

In fixed-line broadband, we are today seeing the outcome of Ofcom's work in previous years. Companies are investing in network upgrades and in new superfast networks under Ofcom's regulatory framework established three years ago. Research published in March 2013 showed that the benefits are flowing through to consumers; the average broadband speed has trebled in four years to 12Mbit/s, and superfast broadband is now available to two-thirds of UK homes.

### Promoting competition in fixed-line networks

An important component of a well-functioning telecoms market is healthy competition; establishing and maintaining this has been Ofcom's focus since its creation nearly ten years ago.

Today there are some good indicators of competition. For example, we have just passed the 9 million mark for the number of 'unbundled' lines. This is where rival communications providers offer services over BT's copper telephone network. By contrast, in 2005 there were just 123,000 lines. At the retail level there are also many different providers offering broadband and superfast broadband services to consumers. We expect this to grow in the coming months and years.

To maintain and promote healthy fixed-line competition, Ofcom conducted two significant reviews in 2012/13. One was a review of 'narrowband markets' – landline voice calls, together with the wholesale services that make them possible. The other was a review of the 'business connectivity market' – the leased lines that provide high-speed links between organisations. In both cases we identified where BT had significant market power, thereby requiring regulation, and where there was healthy competition, which can be managed with lighter regulation.

### **Pay-TV competition bears fruit**

Securing competition when there are existing dominant players in the market isn't easy. Incumbent companies will defend and protect their position, often by challenging new regulation, sometimes through the courts.

Our 2010 investigation into the pay-TV market and the imposition of a 'wholesale must-offer' obligation on BSkyB in relation to premium sports is an example; this was subject to an appeal.

In August 2012, the Competition Appeal Tribunal ruled that Ofcom had the legal power to impose the remedy on BSkyB. However, it reached a different conclusion from Ofcom on Sky's historic behaviour. BT has recently won the right to appeal the Tribunal's decision in the Court of Appeal.

While we disagreed with aspects of the Tribunal's conclusion, it is important to examine the effect that our decision had on the market. In the three years since our ruling, consumers have gained access to top-flight football on a much wider range of TV platforms. A much greater variety of TV packages is available and competition has brought service innovation, too. In short, our intervention has delivered significant benefits to consumers.

### **Helping consumers to help themselves**

For consumers to take advantage of the competition in the sector, they need to make well-informed decisions about the services that best suit their needs.

To help them do this, Ofcom publishes and publicises a range of information. In 2012/13, this included our ongoing research comparing the actual broadband speeds delivered by different internet providers and data on the number of complaints we receive about specific fixed-line, mobile and pay-TV providers. As well as giving consumers valuable information, publishing the data encourages service providers to raise their game.

We improved the consumer guides and the advice on our website, which in 2012/13 received more than 4 million visits. The two most popular guides during the year were those containing advice on phone call costs and advice on dealing with nuisance calls.

Working with other regulators, we also improved the ParentPort website, which offers parents advice on how to make complaints about a range of issues in the media.

### **Protecting consumers**

Sometimes communications markets don't always deliver the best outcomes for consumers. When this happens Ofcom steps in to protect people.

One issue that generated a lot of public interest this year was mid-contract price rises – when a landline, broadband or mobile operator changes its charges during a fixed contract. During the year we consulted on proposals that would allow customers to exit a contract without penalty if prices go up. We will make a final ruling on this in 2013.

Another area of growing consumer concern is the issue of companies making nuisance calls, which can cause annoyance or distress. Enforcement action is a deterrent; since April 2012, Ofcom has fined Homeserve, nPower and TalkTalk for making excessive silent and abandoned calls.

We also announced a five-point plan to further address the problem. This includes new research to get a clearer picture of the problem, and co-ordinated action with industry and other agencies with responsibilities in this area. We would like to go further, but while our powers are limited and action requires collaboration between multiple agencies, this is a challenging area.



### Safeguarding the services that consumers value

2012/13 marked the first full year in which Royal Mail was regulated by Ofcom. A priority from the start was to protect the universal postal service, which guarantees an affordable postal service at a uniform price, six days a week, to every address in the UK, which we said should remain firmly in place.

To do this we introduced a safeguard cap on the price of second-class stamps, large letters and small parcels, to protect vulnerable consumers and small businesses, while giving Royal Mail greater freedom in the way it sets other prices.

In 2012/13, we also proposed new protections against the removal of post boxes in rural areas, and published guidance on how we would assess the potential impact of new competition in the postal market on the universal postal service.

### Protecting audiences

All UK broadcasters must adhere to the Ofcom Broadcasting Code. This is an industry rulebook that defines the standards that audiences expect on TV and radio.

During 2012/13 we assessed 16,334 complaints about broadcast content and we conducted 324 investigations, some of which generated significant levels of public interest. This included editions of BBC's *Newsnight* and ITV's *This Morning*, both of which are ongoing.

One focus of our work in 2012/13 was protecting children from unsuitable programmes and ensuring that the rules around the 9pm watershed are enforced. During the year we fined three companies for showing adult content that could have been accessed by children. We also issued updated guidance to broadcasters to make it clear what sort of content is unsuitable for broadcast without mandatory restricted access and reminded them of the rules around the watershed.

### Broadcast licensing and the Leveson Inquiry

Audiences in the UK have access to arguably the richest and most diverse broadcast media in the world. From channels provided by the public service broadcasters to specialist content aimed at specific communities or interest groups, Ofcom licenses some 2,000 radio and TV services in the UK.

A focus in 2012/13 was on local TV licensing; Ofcom assessed and licensed 19 organisations to broadcast in defined geographical areas of the UK. We also awarded a licence to a company to run a local TV 'multiplex' that will allow the local stations to broadcast on digital terrestrial TV. The first services are expected to be on-air by the end of 2013. We kicked off a second round of licensing in March 2013.

The way that TV and radio broadcasters are licensed and regulated was considered by Lord Justice Leveson as part of his Inquiry into the culture, practices and ethics of the press. Both the Chairman and I gave evidence to the Inquiry in July 2012 and this is covered in more detail on page 25.

The Inquiry was, of course, triggered by the revelations into phone hacking. Ofcom has a statutory duty to consider whether broadcasters are fit and proper to continue to hold licences. In the light of the phone hacking revelations Ofcom considered whether Sky – which is 39.1 per cent owned by News Corporation, which owned papers that were associated with the hacking claims – was fit and proper. After a thorough assessment, in September 2012 Ofcom concluded that, on the evidence available, Sky was fit and proper to hold its broadcast licences.

### Delivering on our priorities

Every March, Ofcom publishes an Annual Plan that sets out our work programme and priorities for the coming financial year. The Plan for 2012/13 contained 13 priorities, some of which are described above.

Section B of this report, starting on page 8, includes a table where we assess in more detail our delivery against the priorities and the outcome of our work.

We have made good progress in delivering on all of our priorities for the year. However, one particular area of attention is our work to improve the switching processes for consumers, which continues to be a major priority in 2013/14.

## Reducing our budget

Since Ofcom's creation nearly ten years ago, we have continually striven to reduce our costs. Every year we have reduced our budget in real terms and on a like-for-like basis.

The year under review was no exception. 2012/13 was the second of a four-year programme to reduce Ofcom's budget by 28.2 per cent in real terms. This followed a major review to identify savings in response to the challenge facing the whole of the public sector.

Ofcom's budget for 2012/13 was £121.4m. Ofcom's audited outturn for the year was £109.9m, with savings made as a result of delivering its spectrum responsibilities for the London 2012 Olympic Games and Paralympic Games under budget, savings across staff costs and also the re-phasing of planned work on online copyright infringement.

The drive to reduce costs continues. Ofcom's budget for 2013/14 is £117.0m, which is a 6.5 per cent reduction on the previous year's budget in real terms.

Ofcom is funded by a mixture of grant-in-aid and fees collected from the stakeholders we regulate. In 2013/14 the proportion of funding from the taxpayer will further reduce. This is in part due to Ofcom's 2013/14 budget reduction, but also because a major review of our costs gave us better information on how they should be allocated. This is in line with the Government's desire for economic regulators to increase the transparency of their fees.

As a result of this, Ofcom has determined that the proportion of IT costs associated with spectrum management should be reduced, which, in turn, will reduce the required level of taxpayer funding in 2013/14 and future years.

Section D of this report, starting on page 63, covers Ofcom's budget and expenditure in more detail.

## Work programme for 2013/14

The budget will be used to deliver important work across the communications sector, under five key priorities:

1. Promote effective competition and informed choice. This will include ensuring effective competition and investment in both current and superfast broadband, and promoting choice for consumers through clear information and efficient switching processes.
2. Secure optimal use of spectrum. Ofcom will support the future release of more spectrum for mobile broadband, to meet consumers' growing demand for data.
3. Promote opportunities to participate. For consumers and citizens to benefit from communications services, they need to be able to access and make use of them. Ofcom's work in this area will include securing the universal postal service and working in collaboration with Government and industry on the availability of superfast broadband.
4. Protect consumers from harm. Ofcom will develop and enforce consumer protection policy on a range of issues. This will include reforming non-geographic telephone numbering to ensure price transparency and considering issues such as mid-contract price increases in mobile phone contracts.
5. Maintain audience confidence in broadcast content. This will involve relicensing the commercial public service broadcasters to ensure continued delivery of high quality, widely available public service channels.



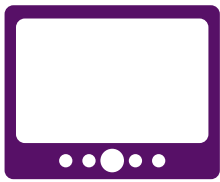
**Ed Richards**  
Chief Executive

# An overview of the communications sector

The communications sector plays an important role in the lives of UK consumers and citizens.

Nearly half of people's waking hours are spent using media and communications, and consumers place an enduring value on communications services, relative to other activities.

Ofcom has a commitment to conduct and publish consumer and market research to inform our work. This research spans a wide range of metrics looking at take-up, use and satisfaction, which remains high in the markets we regulate.



## TV

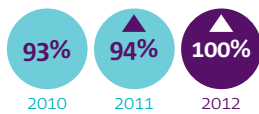
### TV viewing

(per person per day in minutes)

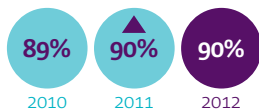


### Digital TV take-up

(% of homes)



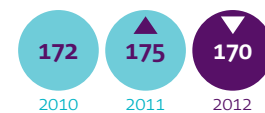
### Satisfaction with DTV service



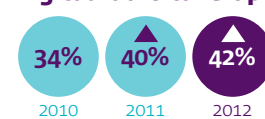
## Radio

### Radio listening

(per person per day in minutes)



### Digital radio take-up



## Post

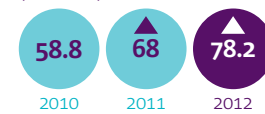
### Use

(volume of items in billions)



### Value of UK e-retail market

(in £bn)



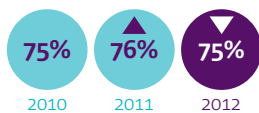
The average broadband speed is 12 Mbit/s in 2012



## Internet

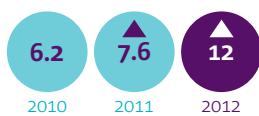
### Broadband take-up

(% of homes)



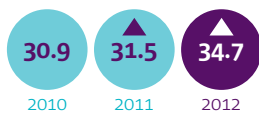
### Average broadband speeds

(in Mbit/s for November)

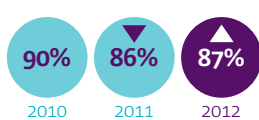


### Internet use

(average hours per person per month in hours)

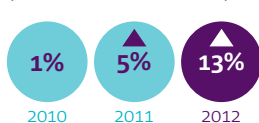


### Satisfaction with broadband service



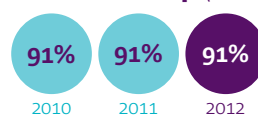
### UK residential superfast broadband take-up

(30 Mbit/s or above)



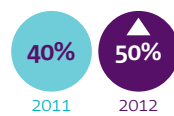
## Mobile

### Mobile take-up (% of adults)



### Smartphone take-up

(% of adults)



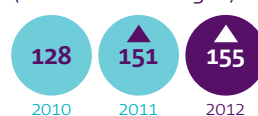
### Mobile use

(in billion minutes)

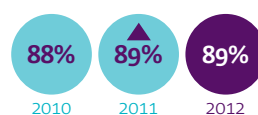


### Mobile use (texts)

(in billion messages)

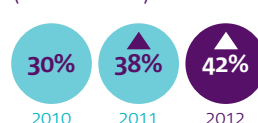


### Satisfaction



### Mobile data take-up

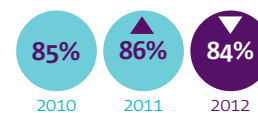
(% of adults)



## Landline phone

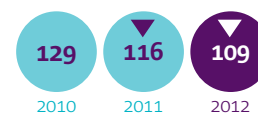
### Take-up

(% of homes)

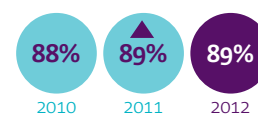


### Use

(in billion minutes)

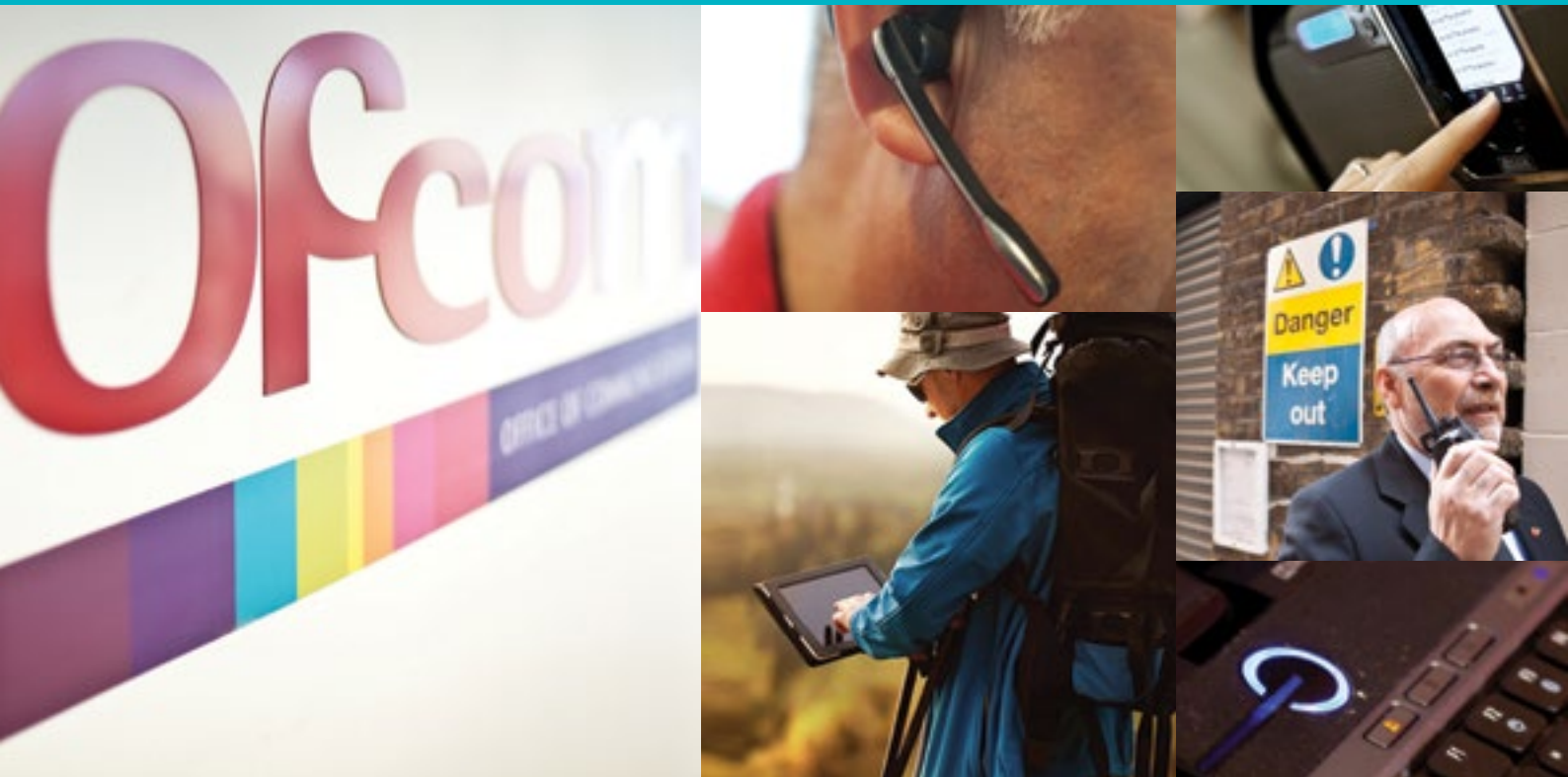


### Satisfaction



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2012/13



“We seek to ensure that people in the UK get the best from their communications services.”

# Progress on delivering against our Annual Plan priorities

Ofcom's principal duty is to further the interests of citizens in relation to communications matters and to further the interests of consumers in relevant markets, where appropriate by promoting competition.

This principal duty is embodied in our five strategic purposes, under which sat 13 priorities for 2012/13.

Within the table on pages 12 to 14, for each strategic priority, we have assigned a status to four assessments of progress. The first two focus on the direct impact of Ofcom's own actions. The second pair of questions focuses on the outcomes for consumers and citizens and typically will take longer to observe. They are dependent not only on Ofcom actions, but also the actions of many other participants in the markets and industry.

Our first two assessments are concerned with whether we have met our plan and whether or not our action has enabled or facilitated the delivery of the interim and final outcome by and for market participants. We ask:

- Have we done what we said we would do in relation to our programme of work?
- Has it been as effective as we intended it to be?

Our second two assessments are concerned with what we expect to happen as the ultimate result of our actions and decisions. Interim outcomes are events in the market that result from a decision taken by Ofcom; for example, enabling third parties access to a particular network or service through which they offer a downstream service, increasing competition and choice in a market.

Final outcomes describe wider benefits for citizens and consumers including, for example, a consumer not only being able to choose from a range of competitive and innovative retail offerings but enjoying widespread availability, lower prices and better quality of service. We ask:

- What progress have we made in achieving the interim outcome(s)?
- What progress have we made in achieving the final outcome(s)?

Certain priorities and outcomes identified in 2012/13 span multiple years, and have continued into 2013/14.

The final columns address the budgeted, forecast and actual value of work:

- Value of work budgeted – the expected value of work for the activities as at 1 April 2012.
- Mid-year forecast of value of work – the forecast for the full year as at 30 September 2012.
- Value of work completed – the actual value of work completed to 31 March 2013.

Ofcom is responsive to new issues, emerging concerns that affect consumers across the UK and new government requests. Consequently, individual project plans may vary throughout the year with more resources being invested in some areas and less in others. However, our drive to reduce costs and deliver value for money is ongoing. In 2012/13, Ofcom delivered significant budgetary savings, with an annual running cost of £109.9m against a budget of £121.4m.

Priority	What we have done	Have we done what we said we'd do?	Has it been as effective as we'd intended?	Interim outcome	Final outcome	Value of work budgeted (£k)	Reforecasted value of work (£k)	Value of work completed (£k)
<b>Core purpose: Promote effective and sustainable competition</b>								
Ensure effective competition in business connectivity and voice telephony markets, and protect end-users	<ul style="list-style-type: none"> <li>Consulted on and published our conclusions in the Business Connectivity Market Review.</li> <li>Consulted on our proposals for the Narrowband Market Review.</li> </ul>					2,593	3,238	3,982
						Increased complexity in Business Connectivity Market Review coupled with very significant consultation submissions from stakeholders and a need to reconsult on some issues resulted in increased expenditure during 2012/13.		
Promote competition and investment in the delivery of superfast broadband	<ul style="list-style-type: none"> <li>Continued our regulatory approach in accordance with the 2010 framework, published consumer information, monitored availability and take-up of services. Began review of wholesale fixed voice, broadband and local access markets.</li> </ul>					895	2,121	2,279
						Decision taken to advance preparatory work on several major market reviews (Wholesale Line Access, Wholesale Broadband Access, ISDN30) and related charge controls in order to ensure completion by the end of 2013/14.		
<b>Core purpose: Promote the efficient use of public assets</b>								
Auctioning of the 800 MHz and 2.6 GHz spectrum bands	<ul style="list-style-type: none"> <li>We prepared for the auction through detailed consultation with stakeholders. We confirmed the auction regulations via secondary legislation, and published an Information Memorandum.</li> <li>We finalised software to run the auction and trained prospective bidders in its use. The auction was successfully completed in February 2013.</li> </ul>					1,502	1,813	2,311
						Due to the complexity of the project, expenditure was increased to cover internal audit and physical, process and IS security. In addition, expenditure was increased on management oversight and the testing of the IS required to deliver the auction.		
Timely spectrum clearance to enable new awards, while mitigating co-existence issues	<ul style="list-style-type: none"> <li>We have planned and implemented the relocation of all users in the 800 MHz and 2.6 GHz bands so that they can be used by the new licensees as soon as possible. We have facilitated the arrangements to ensure that the new services in these bands do not create harmful interference to users in the neighbouring bands.</li> </ul>					865	865	664
						Ofcom managed its programme of clearance and relocation which was delivered on time and under budget <sup>1</sup> . Ofcom's careful planning and oversight of this complex programme contributed to this success. The original budget assumed that significant policy work would be required to manage clearance effectively but this was less than expected.		
Deliver the Government's spectrum guarantee for the London 2012 Olympic Games and Paralympic Games	<ul style="list-style-type: none"> <li>We delivered the Government's guarantee for the Games by making all the spectrum assignments needed and successfully managing all interference issues.</li> <li>We passed learnings to the IOC and successor cities.</li> <li>We are using the legacy capabilities for our normal work as well as in support of the Glasgow 2014 Commonwealth Games and subsequent major events.</li> </ul>					6,731	6,956	4,924
						Effective planning, management and risk mitigation ensured that Ofcom was able to deliver the UK Government's spectrum guarantee for the London 2012 Olympic Games and Paralympic Games under budget for 2012/13 and for the programme overall.		

Priority	What we have done	Have we done what we said we'd do?	Has it been as effective as we'd intended?	Interim outcome	Final outcome	Value of work budgeted (£k)	Reforecasted value of work (£k)	Value of work completed (£k)
<b>Core purpose: Help communications markets to work for consumers</b>								
Promote effective choice for consumers by ensuring that clear information on service, price and quality is available	<ul style="list-style-type: none"> <li>Broadband speeds research, consumer complaints and satisfaction data in relation to fixed and mobile telecoms and pay-TV providers, improved consumer guides and website advice, made enhancements to the ParentPort website</li> </ul>	●	●	●	●	262	600	707
						Valuable additional work undertaken relating to customer retention which was not originally planned for 2012/13		
Develop and implement policies that will improve the ease of switching between communications providers	<ul style="list-style-type: none"> <li>Carried out further work to inform our assessment and scope ahead of publishing our statement in summer 2013. Consulted on schemes for accreditation of price comparison websites. Monitored and took action in relation to automatically renewable contracts</li> </ul>	●	●	●	●	374	758	711
						Additional evidence submitted by stakeholders in response to the consultation on switching processes and a significant level of consumer interest necessitated more complex and costly work. This resulted in more resources being used than originally planned, and the requirement for further advisory and research work.		
Secure the provision of the universal postal service and determine the needs of postal users	<ul style="list-style-type: none"> <li>Continuation of universal postal service, safeguard cap introduced for 2nd class stamps, large letters and small parcels, consulted on proposed new protections against removal of post boxes, guidance on assessing the impact of competition in the postal market.</li> </ul>	●	●	●	●	2,639	2,179	1,813
						A greater deregulatory stance has resulted in savings in the fulfilment of our ongoing duties in relation to postal services.		
Assess the provision of communications services in the nations	<ul style="list-style-type: none"> <li>Carried out assessment. Findings published in 2013.</li> </ul>	●	●	●	●	134	127	140

● We have done what we said we would do  
 ● We continue to make progress towards achieving the priority

● We have not made as much progress as we thought we would do  
 ● It is too early to assess our progress

Note: An explanation of the column headers is given on page 11. The value of the budget and of the work completed is based on the direct costs of related activities. Stakeholders are billed in accordance with our Statement of Charging Principles and not solely on the direct cost of an activity.

1 The full Spectrum, Clearance and Awards Programme costs are excluded from this table but are included on page 84 of this report.



Priority	What we have done	Have we done what we said we'd do?	Has it been as effective as we'd intended?	Interim outcome	Final outcome	Value of work budgeted (£k)	Reforecasted value of work (£k)	Value of work completed (£k)
<b>Core purpose: Provide appropriate assurance to audiences on standards</b>								
Consider approaches to future content regulation, including a review of regulation of video on demand	<ul style="list-style-type: none"> <li>Undertaken significant work in relation to relicensing of Channel 3, Channel 5 and C4C. Contributed to public debates on future of content funding, including DCMS seminars and Lords Convergence Report.</li> <li>Reviewed the designation of ATVOD and reconfirmed its appointment as co-regulator. Sanctions on adult content providers for failing to protect minors. New procedures on how we consider and impose sanctions and appeals of ATVOD decisions</li> </ul>					398	737	625
						Additional work relating to Content, which was not originally planned for in the 2012/13 budget, resulted in additional resources being utilised.		
<b>Core purpose: Contribute to and implement public policy defined by Parliament</b>								
Advise Government on the measurement of media plurality and contribute to the Leveson Inquiry	<ul style="list-style-type: none"> <li>Independent advice provided to Secretary of State on media plurality and supplementary questions answered. Evidence provided to the Leveson Inquiry. Input to Government Communications Review.</li> </ul>					349	291	367
Work in collaboration with Government and industry to promote widespread superfast broadband and reduce mobile not-spots	<ul style="list-style-type: none"> <li>Updated Infrastructure Report published, publication of European Broadband scorecard, technical advice to Government and advice on state aid issues</li> </ul>					155	219	293
						The scope of the work relating to superfast broadband was wider than we originally anticipated and planned for in the 2012/13 budget. Consequently, additional resources have been utilised in carrying out this work.		
Implement Digital Economy Act 2010 provisions around online copyright infringement	<ul style="list-style-type: none"> <li>Draft code and research published, awaiting further direction from Government.</li> </ul>					2,124	1,523	411
						Work in this area was initially delayed by a judicial review of the Digital Economy Act. We are awaiting legislation to be passed before work can be progressed further.		

We have done what we said we would do

We continue to make progress towards achieving the priority

We have not made as much progress as we thought we would do

It is too early to assess our progress

Note: An explanation of the column headers is given on page 11. The value of the budget and of the work completed is based on the direct costs of related activities. Stakeholders are billed in accordance with our Statement of Charging Principles and not solely on the direct cost of an activity.

We aim to deliver against the objectives set in our Annual Plan priorities. This section explains how we performed against these priorities and provides detail on our objectives, what actions we took and the outcomes for consumers.



## Our objective

### Ensure effective competition in business connectivity and voice telephony markets, and protect end-users

Fixed voice telephone services, or landlines, are provided in the UK by a variety of different companies, which use either their own network or another provider's network to supply end-customers under a wholesale agreement. This is important as it allows consumers to buy landline services from different providers.

In contrast, 'leased lines' are high-capacity links that provide bandwidth between fixed locations. They play an important role in business communications in the private and public sectors, as well as providing capacity for internet service providers. Leased lines also play a significant role in transmitting mobile broadband traffic, which is increasingly important as more data is carried over mobile networks.

Under our statutory duties, we began reviews of both of these important markets in 2012 to make sure they are competitive and to identify any regulatory changes that may be required.

## What we did

We opened a review of fixed narrowband markets – landline voice telephone calls, together with the wholesale services that make them possible – and published our provisional conclusions. We found that retail voice telephony, which is no longer the subject of regulation, remains highly competitive. We also found that BT has 'significant market power' in the provision of wholesale call origination – the market for allowing customers to make a call – in all parts of the UK except Hull, and we proposed a charge control as an appropriate remedy.

Separately, we opened and concluded the *Business Connectivity Market Review (BCMR)*, examining the leased lines that provide vital high-speed links between schools, universities, libraries and other public bodies.

We found that BT had 'significant market power' in the relatively new but fast-growing market for very high-bandwidth, wholesale leased line services at speeds above 1Gbit/s in all parts of the UK except London and Hull. We decided to maintain and extend some existing regulation on BT, but also to impose lighter regulation – largely in the form of safeguard price caps – in the London area, where BT faces greater competition from other providers.

## Outcome

Despite the growth of mobile and online services, millions of us still make and receive telephone calls from landlines. Promoting competition between the communications providers who offer landline calls remains an important part of our work. The fixed narrowband review will conclude in the summer of 2013. Our decisions will be designed to ensure that consumers continue to benefit from affordable landline voice services.

Over the coming years, our decisions will lead to reduced prices in the fastest growth segment of leased lines, Ethernet. Conversely, we have decided that prices for the declining legacy leased lines using 'traditional interface' (TI) technology should be allowed to increase. Our decision on Ethernet lines should drive competition, helping to ensure that the UK has a backbone of high-speed business networks capable of supporting not only companies, but also consumer services. Although end users do not necessarily know it, superfast broadband and mobile video streaming rely upon leased lines for their provision, so consumers will ultimately benefit.



## Our objective

### Promote competition and investment in the delivery of superfast broadband

The past decade has seen significant investment in broadband networks, which has led to healthy competition, high consumer take-up and steadily increasing broadband speeds. However, a step-change in the technology is needed in order to increase broadband speeds further, and this requires significant new investment. Our aim is to provide a regulatory framework that gives confidence to potential investors, enabling them to make a case to roll out new superfast networks. At the same time, we want to enable competition in the emerging superfast broadband market so that consumers can benefit from a choice of services and providers.

#### What we did

In 2010, we introduced a regulatory framework to help kick-start superfast broadband. This remains in place today.

To allow other providers to compete in the supply of retail superfast broadband, BT is required to offer 'virtual' unbundled access to its superfast fibre network.

Virtual unbundling is available in all areas where BT has a superfast network. At the current time, we expect most operators to use this when providing superfast broadband rather than investing in their own networks.

BT is also required to provide access to its underground ducts and telegraph poles to give other operators the option to invest in their own superfast broadband networks.

A key part of our regulatory approach is to give pricing flexibility to operators who do invest in new superfast broadband networks. This is in recognition of the new and risky nature of this type of investment. Furthermore, we believe that superfast broadband and current-generation copper-based broadband services are currently in the same market. In real terms this means that prices of superfast services are constrained by the prices of the copper-based alternative.

We also continue to monitor the availability and take-up of services, the results of which will be published through regular research such as the *Infrastructure Report* and *Communications Market Reports*.

In line with the European framework for electronic communications, we have begun our review of the wholesale fixed voice, broadband and local access markets and are in the process of consulting on these.

#### Outcome

The deployment and adoption of superfast broadband services continues apace. We estimate that superfast broadband services are available to over 65 per cent of premises in the UK and that more than 15 per cent of broadband customers now take a superfast service, delivering speeds of 30Mbit/s or more.

BT continues its investment in deploying next-generation access. Over 15 million premises are now passed, with around 1.3 million connected. With a planned footprint of 19 million premises, BT is part-way through its £2.5bn investment in the next-generation networks to deliver superfast broadband services, which is expected to be completed by March 2014.

Virgin Media continues to invest in its cable network and increase the broadband speeds it provides to its customers. Of its 4.3m broadband customers, over half (2.5m) now have a speed of 30Mbit/s or faster, compared to 17 per cent a year ago.

The UK's average broadband speeds have been rising as a result of accelerating take-up of superfast services, and the average speed now stands at 12Mbit/s, an increase of 58 per cent from a year ago.

## Our objective

### Auctioning the 800 MHz and 2.6 GHz spectrum bands

Ofcom this year conducted the largest ever auction of spectrum for mobile services in the UK, laying the path for a number of next-generation 4G networks to be rolled out, benefiting consumers and businesses across the UK.

Spectrum is the airwaves used for wireless services such as TV, radio and mobile phones. It is a valuable resource because its supply is limited. The auction offered the equivalent of three-quarters of the mobile spectrum in use today across two separate frequency bands, 800 MHz and 2.6 GHz. This represented some 80 per cent more than was released in the 3G auction that took place in 2000.

The lower frequency 800 MHz band is part of the 'digital dividend', which is ideal for mobile coverage. The higher frequency 2.6 GHz band is ideal for delivering the capacity needed to deliver faster speeds.

This combination of low and high frequency spectrum creates the potential for 4G mobile broadband services to be widely available across the UK, while offering capacity to cope with significant demand in urban centres.

#### What we did

Between January and March 2012, Ofcom consulted on its proposals for how the spectrum should be auctioned. The responses to this consultation and the evidence submitted, together with further analysis by Ofcom, helped us to refine the design of the auction.

In July 2012, we published our statement detailing the auction design and the measures taken to ensure a positive outcome for UK consumers. Ofcom reserved a minimum amount of spectrum in the auction for a fourth operator, believing that consumers are likely to benefit from better services and lower prices if there are at least four credible national wholesalers of 4G mobile services. Additionally, to ensure the wide availability of 4G mobile broadband services, Ofcom attached a 98 per cent (95 per cent in each of the nations) indoor reception coverage obligation on one of the 800 MHz spectrum lots to be auctioned.

In August 2012, Ofcom approved an application by Everything Everywhere (EE) to use its existing 1800 MHz spectrum to deliver 4G services. We decided that the variation in EE's licence, authorising LTE (essentially 4G) services from 11 September 2012, would help deliver significant benefits to consumers, and that there was no material risk that those benefits would be outweighed by distorting competition. EE launched 4G services in October 2012.

Ofcom invited applications for the auction on 11 December 2012 and announced a list of the seven qualified bidders nine days later. Bidding in the auction began on 17 January, with the main part concluding approximately five weeks later. Ofcom granted licences to use the spectrum to the winning bidders on 1 March 2013.

#### Outcome

The auction achieved Ofcom's purpose of promoting strong competition in the 4G mobile market by delivering five winning bidders. This is expected to lead to faster mobile broadband speeds, lower prices, greater innovation, new investment and better coverage for consumers over the coming years.

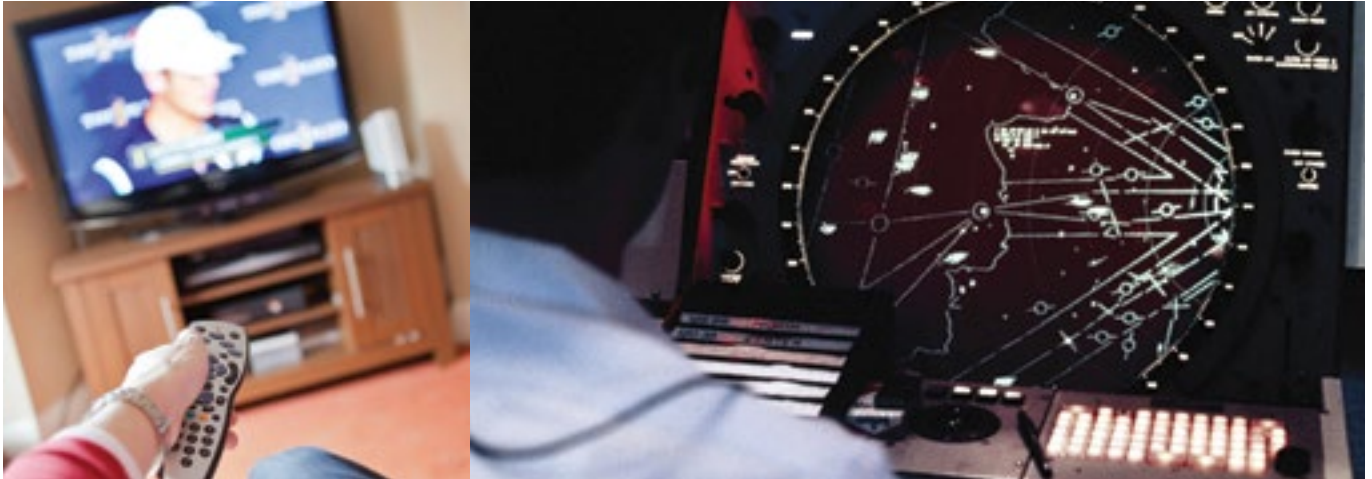
The inclusion of a coverage obligation means that 4G coverage will extend far beyond that of existing 3G services, covering 98 per cent of the UK population indoors – and even more when outdoors – which is good news for parts of the country currently underserved by mobile broadband, and means that almost the whole UK population will be able to receive 4G mobile services by the end of 2017 at the latest.

The five winning bidders included the existing four national wholesalers of mobile services in the UK as well as Niche Spectrum Ventures Ltd (a subsidiary of BT) which won spectrum in the 2.6 GHz band. Telefonica, which operates the O2 mobile brand in the UK, won the spectrum with the attached coverage obligation. We anticipate that consumer services will be launched in summer 2013 – earlier than originally planned, as a result of our success in 'clearing' the spectrum (see page 18).

The value delivered by 4G spectrum stretches beyond the amount raised in the auction (£2.368bn); we estimate 4G services to provide at least £20bn in benefits to consumers (the 'consumer surplus') over the next ten years.

Towards the end of 2013, we plan to conduct research to measure the performance of 3G and 4G networks, by operator, to help consumers make informed purchase decisions and better understand the performance benefits of 4G over 3G mobile services. The results are expected to be published in spring 2014.





## Our objective

### Timely spectrum clearance to enable new awards, while mitigating coexistence issues

Before mobile operators can use the 800 MHz and 2.6 GHz spectrum for 4G mobile services, it is critical for Ofcom to ensure that the spectrum is cleared of existing users, and that spectrum users in nearby bands can coexist safely with their new 4G neighbours.

Two key users of adjacent bands are digital terrestrial TV (DTT via Freeview) and aeronautical radar. A high proportion of households in the UK rely on DTT for at least some of their TV viewing, so the frequency changes necessary to clear the 800 MHz band have to be managed carefully. Similarly, Ofcom has had to deal with the potential interference with aeronautical radar from the future mobile services in the 2.6 GHz band.

## What we did

Between February and April 2012, Ofcom consulted on how to protect existing DTT viewers from interference from 4G mobile broadband. This followed Government decisions on how coexistence should be managed, including a measure to allocate £180m, to be provided by winners of 800 MHz spectrum licences, to fund ways of addressing TV signal interference, including the use of filters. The government also decided that this scheme would be managed by a company, Digital Mobile Spectrum Limited (DMSL), which was set up by the mobile operators that won the 800 MHz spectrum.

In July 2012, the Government published a document which confirmed the decisions taken in February and provided further clarity. Among other things, it decided to assist those households which are likely to find it most difficult to install a filter. DMSL, whose consumer brand is “at800”, is responsible for co-ordinating such assistance.

Following further work, Ofcom helped set the framework to measure DMSL’s performance to ensure a high level of support for consumers. These terms are set out in the licences issued on completion of the auction.

## Outcome

Over the past year, Ofcom has taken several steps to speed up the clearance of spectrum, to ensure that 4G spectrum at 800 MHz and 2.6 GHz is made available as soon as possible.

Following discussions with TV broadcasters, Digital UK and the transmission company Arqiva, Ofcom, together with Government, successfully secured the early release of frequencies previously used for DTT broadcasting. This became possible as a result of the significant progress made with digital switchover and the clearance programme itself, which was delivered ahead of schedule.

This spectrum will now be cleared and ready for 4G mobile services across much of the UK five months earlier than previously planned, from spring 2013, so UK consumers will be able to benefit from superfast mobile broadband sooner than previously thought possible.

## Our objective

### Deliver the Government's spectrum guarantee for the London 2012 Olympic Games and Paralympic Games

Ofcom played an important role in securing the successful delivery of the London 2012 Olympic Games and Paralympic Games. Every aspect of the Games used spectrum intensively and relied on it for critical applications. We were responsible for finding the necessary spectrum for the Games; for ensuring that frequencies were licensed to those who needed them; and for keeping these frequencies free of interference.

London is one of the most heavily congested spectrum environments in the world. It was essential that while providing spectrum for the Games we also preserved capacity for the emergency services and 'business as usual' services within the M25.

Our overarching objective was to contribute to a safe and successful Games by ensuring that sufficient spectrum was made available, at no additional cost and with the least disruption to existing users, thereby helping to deliver the Government's spectrum guarantee to the International Olympic Committee.

#### What we did

The requirement for spectrum for the Games was much greater than our normal operational arrangements could meet. It was important that the limited supply of spectrum was both efficiently used and carefully allocated to ensure that all requirements were met and the risk of harmful interference was minimised.



Over six years in the run-up to the Games, Ofcom managed a substantial project of planning, development, testing and operational delivery to make sure this happened.

We issued nearly 6,000 spectrum licences and made 30,000 technical assignments of spectrum for the Games period – nearly three times the number in a typical year.

We used our modern sensor network to monitor the radio spectrum in the Games venues and to help locate any sources of interference quickly. To reduce the risk of interference, we inspected and labelled wireless equipment used in Games venues, issuing 60,000 tags to confirm that items met their licence conditions. And we deployed 100 expert engineers, including colleagues from our sister agencies in ten other European countries, to help track down and deal with any cases of interference.

Towards the end of 2012, we published our learning from the Games and contributed to the formal transfer of this knowledge to Rio de Janeiro ahead of the 2016 Games.

#### Outcome

Our strengths in spectrum management and operational delivery contributed to the London 2012 Games running smoothly and delivering an outstanding experience for the public in the UK and across the world.

Preparing for and fulfilling our role at the Games was a challenging task. We successfully delivered on all our objectives and provided the necessary services to spectrum users at and around the Games. All significant requirements for spectrum at the Games were met; and the few cases of interference were dealt with without significant impact.

We were proud to be able to contribute to a highly successful Olympic and Paralympic Games for the UK. The equipment, systems, processes and experience from the Games will act as a legacy, assisting Ofcom in the future to carry out our day-to-day responsibilities for UK spectrum management. Additionally, we continue to work with colleagues in other countries to share knowledge and experience with those responsible for future major events and will support the Commonwealth Games in Glasgow in 2014.



## Our objective

Promote effective choice for consumers by ensuring that clear information on service, price and quality is available

Ofcom wants to make sure that consumers get the best choice and value for money from their communications services. In order to help consumers make the right choices, we are undertaking a broad programme of work to ensure that consumers have access to reliable, accurate and up-to-date information – essential if they are to make informed decisions when considering a service or provider.

### What we did

We published two reports on comparative speeds for residential fixed-line broadband in the UK (August 2012 and March 2013). The reports set out the average actual speeds delivered to consumers in the UK, and compared the differences between speeds and other performance measures, both by internet service provider (ISP) and by technology.

We also published new research on levels of satisfaction with the customer service provided by landline, broadband, mobile and pay-TV providers. The research canvassed the views of thousands of customers on various aspects of the providers' customer service, including the speed with which issues were dealt with, the standard of advice given and the attitude and ability of the customer advisor.

We continue to publish quarterly complaints data revealing which of the major providers receive the most and least complaints. In 2012, for the first time, the data included pay-TV providers.

### Outcome

Through our research, consumers have access to independent relative performance data of different providers in the market. We believe this acts to incentivise providers to improve performance (service, price, quality).

For example, our research on average broadband speeds suggests that average speeds increased from 7.6Mbit/s in November 2011 to 12Mbit/s a year later, and that the proportion of residential broadband connections classed as 'superfast' (those with an advertised speed of 'up to' 30Mbit/s or above) more than doubled to 13 per cent over the same period.

Our satisfaction surveys show ongoing year-on-year improvements to a number of aspects of customer service. Similarly, in respect of complaints, performance is, in general, getting better. During the past year the total volume of complaints made to Ofcom continued to decline. Specifically in the broadband and fixed-line markets, there have been significant improvements by the providers with the highest relative volumes of complaints.



## Our objective

### Develop and implement policies that will improve the ease of switching between communications providers

Consumers must be able to switch providers easily so that they can choose the broadband or telephone service that best suits their needs.

But Ofcom research shows that consumers often face difficulties when changing their provider, with 514,000 households facing problems during the switching process over the past year.

#### What we did

In February 2012, we published a consultation setting out our proposals to change the processes that are currently used for switching fixed voice and broadband services. These proposals do not apply to cable customers at present.

We explained in the consultation that our preferred option is a harmonised process, in which the new provider would manage the switching process, including the transfer of services from the old provider.

To guard against slamming, where a consumer is switched to a different provider without consent, the switch would be checked and verified by an independent third party.

We received a significant number of responses to the consultation. We have completed further work to inform our assessment and the scope of our policy statement, which is due to be published in the summer. This will also include a consultation on some specific aspects and will also set out next steps in relation to our work on switching.

Ofcom continues to accredit price comparison websites, which ensure that consumers have access to accurate and reliable price information. We have recently consulted on whether the accreditation scheme is still effective and relevant in today's market.

We conducted a review of providers' terms and conditions to identify any provisions that might act as a disincentive to switching. We identified a number of concerns around automatically renewable contracts and subsequently wrote to the providers in question to remind them of their obligations under General Condition 9, which relates to the requirement to offer contracts with minimum terms. We are continuing to monitor compliance and will consider further enforcement action where necessary.

#### Outcome

Our statement on changes to the current switching processes should ensure that changing broadband and landline providers is simpler and more reliable for consumers, while reducing instances of slamming. We also want to ensure that switching processes do not get in the way of providers competing to deliver benefits to all consumers, in terms of lower prices, greater choice and innovation, and value for money.





## Our objective

### Secure the provision of the universal postal service and determine the needs of postal users

Postal habits are changing across the UK, as are the needs of consumers. People are using postal services to communicate less as they turn to other ways of keeping in touch, such as the internet, email, telephone and text. The increase in internet shopping means consumers are placing greater focus on packet and parcel services.

UK consumers and businesses benefit from the 'universal postal service', which requires Royal Mail to deliver to every address in the UK six days a week at affordable and uniform prices.

Ofcom's primary duty in relation to postal regulation is to carry out its functions in a way that it considers will secure the provision of the universal postal service in the interests of consumers and users of postal services. End-to-end competition has the potential to affect the provision of a universal postal service, and where, in the light of the available evidence, Ofcom considers that such a service is threatened, it has the powers to take regulatory action to secure it where necessary and appropriate.

Additionally, Ofcom has a legal duty to carry out an assessment on whether the postal service is meeting customers' needs.

#### What we did

As part of our gathering of evidence and review of the reasonable needs of postal users we carried out extensive market research and conducted a consultation.

The market research was the most comprehensive ever published by the regulator on the universal postal service in the UK, based on a combination of surveys and discussions with both residential users and businesses;

we surveyed over 4,000 people and 1,000 businesses, and held workshops across the UK. We sought users' views on the current postal service and their requirements from it, particularly in relation to any areas where there may be shortfalls, or where elements of the service may no longer be needed.

During the year, we also consulted on draft guidance which set out our approach to assessing the need for regulatory intervention in relation to end-to-end competition in the postal sector, while being aware of the potential implications such competition may have for the universal service.

In 2012/13, we consulted on our proposal for new protections to ensure that everyone continues to have access to local post boxes across the whole of the UK, including those in rural communities.

#### Outcome

In March 2013, in line with our duties, we outlined measures to safeguard the universal postal service. We concluded that we should make no changes to the scope of the universal postal service and consulted on new protection against the removal of post boxes in rural areas. We also published guidance on how we would assess the potential impact of competition on the universal postal service and the steps to be taken in the event that competition poses a threat to its sustainability. Finally, we committed to undertake a review of the impact of end-to-end competition on the universal service towards the end of 2015, if our monitoring of market developments has not already led to a full review.

## Our objective

### Assess the provision of communications services in the nations

The availability and quality of communications services varies across the UK. This matters because of the increasing integration of digital communications within daily life. Communications services provide consumers with access to vital political, educational, cultural and economic resources. They provide businesses with the opportunity to increase efficiency, develop new services, and to reach new markets. And they make possible new and more effective means of providing public services to citizens.

As the regulator, we look to support the development of well functioning, competitive markets, which help deliver benefits to consumers in the shape of lower prices and improved choice and quality, as well as innovation from providers.

Where markets do not deliver optimal outcomes for society as a whole, the state, in the form of different public bodies, can intervene to help extend the availability of communications services beyond that which the market alone would provide.

Ofcom has a duty to secure the availability throughout the UK of a wide range of electronic communications, television and radio services, as well as a universal postal service. And while we do not have powers to deliver on this duty directly through the grant of public funds, we have some important levers at our disposal, including for example the ability to impose coverage obligations on mobile licences.



### What we did

We undertook to assess the provision of communications services in the nations – England, Scotland, Northern Ireland and Wales – to understand how and why the availability of communications services differs across the UK and how it could be improved.

We published our findings in *The Availability of Communications Services in the UK*, which examines the availability across the UK of six communications services: fixed telephony, fixed broadband, mobile (voice and data), digital television, radio and post.

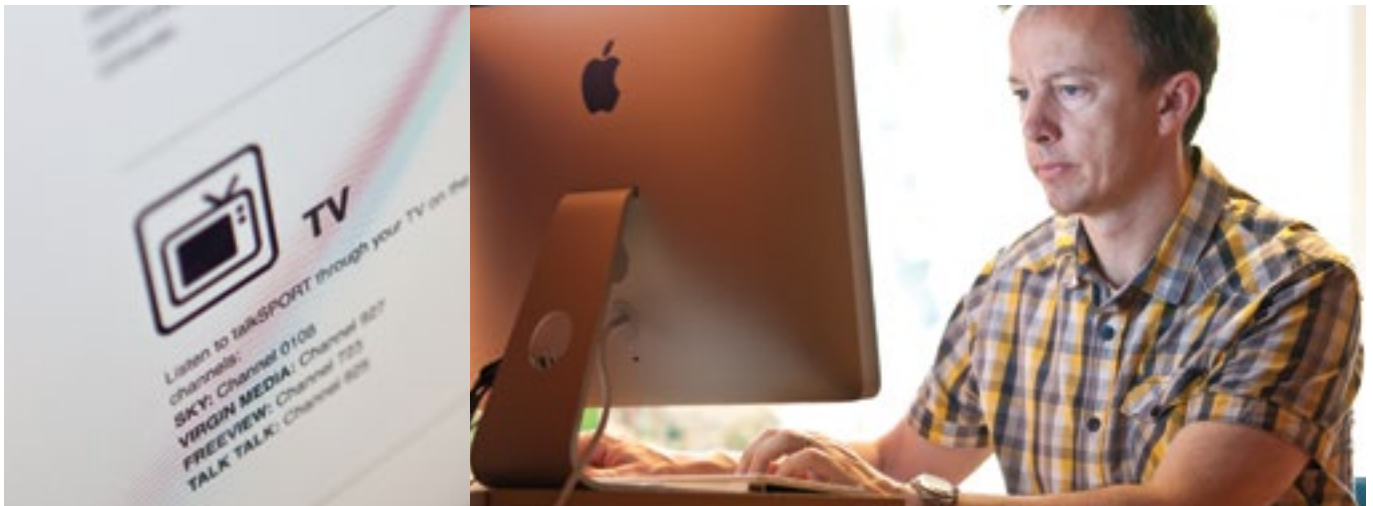
The report draws on data to compare availability for the UK as a whole, for its constituent nations and for the English regions, including new analysis on availability for urban, semi-urban and rural classifications of those areas.

As part of the report, we also considered existing case studies in the communications sector, drawing on work we commissioned that looked at a variety of public interventions – mostly in the UK but also elsewhere in Europe – to highlight the challenge of delivering services that would otherwise not be commercially viable on a standalone basis.

### Outcome

Our research shows widespread variations in the availability of communications services across the UK by nation and region. Landline telephone and postal services are subject to universal service obligations (USOs) and are therefore available across almost all of the UK. Digital satellite television and analogue radio are similarly near-ubiquitous and there is high availability of public service broadcasting on digital terrestrial television (DTT) now digital switchover is complete. However, the availability of broadband, mobile (both voice and data services) and DAB digital radio services is subject to much greater variation.

Availability of all services is good in urban areas in all four nations of the UK, and frequently near-universal. Rural locations are less well served, sometimes significantly so. This is true in England, outside Greater London, but there is a generally greater and recurring lack of availability of communication services to premises in Scotland and Wales and, even more so, in Northern Ireland.



## Our objective

### Consider approaches to future content regulation, including a review of regulation of video on demand

The growing availability of on-demand services means that consumers can watch audiovisual content when and where they want. Technologies like internet protocol television (IPTV) and online TV make accessing on-demand programming increasingly easy for viewers.

On-demand services are co-regulated with Ofcom by the Authority for Television on Demand (ATVOD), to ensure that on-demand content watched by viewers is subject to standards. Ofcom's job is to make sure that on-demand programme services observe certain minimum standards, such as the protection of minors from material which might seriously harm them.

Ofcom designated ATVOD as the co-regulator with regard to on-demand programme services (ODPS) in 2010.

Ofcom retains backstop powers as a concurrent regulator, including the power to sanction ODPS which breach ATVOD's rules and to make the final decision as to which services should be within scope of the regulations.

#### What we did

We reviewed the designation of ATVOD as the co-regulator for video-on-demand services in order to ensure the overall effectiveness of the regulations and the system. Following a consultation and review of ATVOD's performance, Ofcom found that ATVOD had adequately performed its functions and carried out its duties.

In September 2012, Ofcom reconfirmed ATVOD as the co-regulator for on-demand services. Thereafter, ATVOD referred a number of adult content providers for breaches of its rules and guidance. Ofcom imposed sanctions on three of those providers in 2012/13 for failing adequately to protect minors. This resulted in financial penalties totalling £160,000. We also completed seven appeals against ATVOD's scope determinations.

We also:

- published new procedures governing the way we will consider and impose sanctions on service providers;
- published new procedures governing how we carry out appeals of ATVOD's decisions on who is subject to regulation; and
- undertook and published research to help us understand how consumers choose which services to view and their expectations for the regulation of those services.

#### Outcome

A robust framework for regulating video on demand remains in place and provides appropriate assurances to audiences. The arrangements also provide greater certainty for service providers.

Ofcom continues to develop its understanding of who is subject to ATVOD regulation in this dynamically evolving industry. We have also worked, in conjunction with other regulatory bodies and through our involvement with the UK Council for Child Internet Safety (UKCCIS), to help improve the protection of children in the online environment.

## Our objective

### Advise Government on the measurement of media plurality and contribute to the Leveson Inquiry

Media plurality matters as it helps to support a democratic society, by ensuring citizens are informed by a diverse range of views and by preventing too much influence over political processes by one media owner or outlet.

In October 2011, Jeremy Hunt, the then Secretary of State for Culture, Olympics, Media and Sport, asked Ofcom to consider the feasibility of measuring media plurality across platforms, and to recommend the best approach.

The request followed Ofcom's consideration of plurality in relation to the proposed NewsCorp/BSkyB transaction, which had suggested that the existing framework for considering plurality might need a review, and possible reform.

The Secretary of State also asked that we provide our advice to the Leveson Inquiry by June 2012.

#### What we did

We published our independent advice on measuring media plurality in June 2012. In this report we responded to five questions on media plurality put to us by the Secretary of State, having first defined the underlying goals and scope of plurality.

As part of our analysis we commissioned consumer research and industry analysis into the news value chain. We also reviewed academic thinking on many aspects of plurality.

We provided our advice to the Leveson Inquiry in June 2012 and contributed to the Government's Communications Review.



We also submitted evidence to the inquiry of the UK Parliament Culture, Media and Sport Committee into media plurality.

Following the submission of our independent advice, we were asked for further advice by the Secretary of State, in the form of answers to seven supplementary questions. Most of these questions related to further thinking on questions answered in our June 2012 report or to the practical implementation of our recommendations. Ofcom's supplementary advice was sent to the new Secretary of State, Maria Miller, in September 2012, and to the Leveson Inquiry.

We provided evidence to the Leveson Inquiry as part of its formal evidence gathering. Lord Justice Leveson asked Ofcom how the press could be regulated in a way that preserves its independence and the rights of free expression. We provided our views to the Inquiry in April and June 2012. Colette Bowe and Ed Richards gave oral evidence to the Inquiry in July 2012 to answer further questions on our views. Lord Justice Leveson's Report into the Culture, Practices and Ethics of the Press was published on 29 November 2012.

#### Outcome

We published our views on media plurality and advice to Parliament in two separate reports (in June and October 2012) and it is now up to Parliament to decide whether, and how, to take this forward.

We recommended that there should be a periodic review of plurality in news media every four or five years, looking across all platforms (TV, radio, press and online). This would make it possible to consider the impact on plurality of factors other than mergers, such as organic growth by companies and wider market developments.

Additionally, our research led us to conclude that an effective framework for measuring media plurality is likely to be based on quantitative evidence and analysis, wherever practical, including but not limited to the availability, consumption and impact of media content. Of most importance are the consumption metrics, especially reach, share and multi-sourcing. However, there are also areas where a high degree of judgement is required, which we believe is ultimately a matter for Parliament.



## Our objective

Work in collaboration with Government and industry to promote widespread superfast broadband and reduce mobile not-spots

The UK's communications infrastructure is changing rapidly, as a result of rapid development in consumers' use of communications services and the resulting investment by providers.

Today, 10 per cent of UK fixed broadband connections deliver speeds of less than 2Mbit/s and there remains a small proportion of households that cannot receive mobile coverage for 2G voice services.

The Government is committed to ensuring that, by 2015, almost all premises in the UK will be able to access a basic broadband service of at least 2Mbit/s, through its Universal Service Commitment. It also has a stated ambition that the UK should have the best superfast broadband network of any major European country by 2015.

Separately, the Government, through the Mobile Infrastructure Project (MIP), has committed £150m to improve mobile coverage in areas where it is currently poor or non-existent. MIP, which Arqiva has been appointed to deliver, aims to extend coverage to up to an additional 60,000 premises and along at least ten roads (with at least one road in each nation). This is expected to start delivering benefits from late 2013.

### What we did

Ofcom has a duty to report every three years to the Secretary of State for Culture, Media and Sport on the state of the UK's communications infrastructure. We published our first *Infrastructure Report* in November 2011 and provided an update in November 2012.

In March 2013 we published, for the Government, the *European Broadband Scorecard*, a report on the coverage, take-up, use, price and choice of fixed and mobile broadband services in the UK, relative to other European countries. This report, as requested by the Department for Culture, Media and Sport (DCMS), helps measure progress towards the Government's ambition that the UK should have the fastest broadband of any major European country by 2015.

Ofcom continued to support the Government across a number of its programmes. This support included the provision of technical advice for the rural broadband and super-connected cities and mobile programmes as well as advice on state aid issues. We also formally agreed a request from DCMS/Broadband Development UK (BDUK) to support it in its intervention into superfast broadband markets, particularly in the 'final third' (rural areas).

### Outcome

Our research found that the number of UK connections having a fixed broadband speed of less than 2Mbit/s continues to decline, bringing the Government target into sight. We also found that many consumers now have the option to switch to superfast broadband services (30Mbit/s and above) which are now available to two-thirds of UK homes.

Deployment of superfast broadband in the final third has begun. During the year, BDUK received state aid clearance from the European Commission, and over 50 per cent of all contracts to extend superfast networks have been signed with infrastructure providers. For those unable to receive superfast speeds via a fixed network, other technologies are becoming available which have the potential to improve speed, such as satellite broadband and 4G mobile broadband. Taken together, these measures should ensure that superfast broadband services are available to more than 90 per cent of premises in the UK by 2015, and should help the Government deliver on its Universal Service Commitment and superfast broadband ambition.

## Our objective

### Implement Digital Economy Act 2010 provisions around online copyright infringement

The challenge of persuading consumers to enjoy films, TV programmes, books and music online without infringing copyright remains an important area of work for industry, the Government and Ofcom. The Digital Economy Act 2010 specifically gave Ofcom new responsibilities for implementing measures aimed at significantly reducing the level of online copyright infringement.

## What we did

Our work in this area was initially delayed by a judicial review of the Digital Economy Act. In June 2012 we published a draft code that would require large internet service providers to inform their customers of allegations that their internet connection had been used to infringe copyright.

In addition, we have published regular research into both lawful and unlawful access and use of copyrighted content online, which will inform industry and policy makers about the current scale of infringement. The findings revealed that around half of all internet users are unsure whether the content they are accessing online is legal.

However, one in six people online believed they had downloaded or accessed content illegally over the three months in which the research was first conducted.

## Outcome

Legislation to determine how the costs of the scheme would be allocated between different parties is due to be considered by Parliament. While the progress of the scheme depends on the passing of this legislation, Ofcom will continue to monitor the field of online copyright infringement. Assuming the necessary legislation is passed, this work will feed into our formal duty to report regularly to Government when the scheme is up and running.

## Previous years' Annual Plan priorities

As communications sectors develop and consumers' needs change, so does the focus of our key priorities, each year. However, we remained focused on a number of these issues from 2011/12.

### Ensure fair and effective competition in the delivery of pay-TV services

Our 2010 investigation into the pay-TV market was subject to appeals over the imposition of a 'wholesale must-offer' applicable to Sky Sports 1 and 2. We also made a referral to the Competition Commission in respect of the sale and distribution of subscription pay-TV films.

In August 2012, the Commission concluded that Sky's position in

relation to the acquisition and distribution of films in the first pay window does not adversely affect competition. However, the Commission also stated that competition in the retail pay-TV market overall remains ineffective.

Also in August 2012, the Competition Appeal Tribunal (CAT) ruled that Ofcom had the legal power to impose a wholesale must-offer rule on Sky in relation to premium sports rights. But the CAT reached a different conclusion as to Sky's historic behaviour. BT has recently won the right to appeal the CAT judgment in the Court of Appeal.

We note that, in the three years since Ofcom's pay-TV decision, consumers have benefited from greater choice and innovation through the wider availability of premium content. Ofcom has an ongoing duty to ensure fair and effective competition in this sector. We will continue to monitor

the market to establish whether further action may be required to promote competition for consumers.

### Develop a future-looking spectrum policy work programme taking account of market developments and future demand for spectrum

Progress on this priority is ongoing and is encapsulated within our work on UHF strategy described on page 34.

### Licensing arrangements for ITV, STV, UTV and Channel 5 after 2014

Ofcom is currently working towards issuing new ten-year licences for the Channel 3 services (ITV, STV and UTV) and Channel 5, ahead of their expiration at the end of 2014. This follows the Government's decision in November 2012, enabling the renewal of the current licences.

## Major areas of work not set out in our 2012/13 Annual Plan

While we plan our work around our priorities and fulfilling our duties, we also carry out vital work that arises during the course of the year. In 2012/13, this included:

### 'Fit and proper' assessment of Sky

Under the 1990 and 1996 Broadcasting Acts, Ofcom has an ongoing duty to be satisfied that all broadcast licensees are fit and proper.

In July 2011, in the light of the public debate about phone hacking and other allegations, Ofcom confirmed that it had a duty to consider whether Sky, which is 39.1 per cent owned by News Corporation, which owned papers that were associated with the hacking claims, was fit and proper to continue to hold its broadcast licences.

In September 2012, we concluded that, on the evidence currently available and having taken into account all the relevant factors, Sky was fit and proper to hold its broadcast licences.

However, our duty to be satisfied that a licensee is fit and proper is ongoing. Should further relevant evidence become available in the future, Ofcom would need to consider that evidence in order to fulfil its duty.

### Public interest test on acquisition of GMG Radio by Global Radio

Following the announced acquisition of GMG Radio by Global Radio in June 2012, the Secretary of State for Culture, Media and Sport asked Ofcom to report on the effects of the acquisition on media plurality and whether the merger might be expected to operate against the public interest.

As part of our assessment we had regard to media plurality issues of concern to Parliament, undertook our own analysis, and took account of submissions from a range of different stakeholders, including commercial and professional organisations, MPs and individuals.

Based on the evidence available, we did not consider that it was, or may be, the case that Global Radio's acquisition of GMG Radio operates, or may be expected to operate, against the public interest, particularly in the light of commitments made by the parties to provide more local content.

# Our ongoing responsibilities and the resources we manage

As well as fulfilling our Annual Plan priorities, we are constantly working to achieve the best outcomes for citizens and consumers within our day-to-day responsibilities.

## Consumer protection: protecting consumers from harmful terms and practices

We want to make sure that consumers get the best choice and value for money from their communications services and we need to be prepared to intervene if things are not working as well as they should.

During the past year, we acted on a wide range of consumer issues, some of which we review here.

### Nuisance calls

Nuisance calls can cause considerable concern and annoyance for consumers and Ofcom takes this issue extremely seriously.

There are many different types of nuisance calls, and Ofcom and the Information Commissioner's Office (ICO) share responsibility for enforcing the rules and taking action against organisations that break the rules. The ICO has lead responsibility for tackling nuisance marketing calls and text messages, whereas Ofcom has responsibility for addressing the issue of silent and abandoned calls.

Since April 2012, Ofcom has issued fines to HomeServe, nPower and TalkTalk, totalling over £1.5m, for breaking the rules on silent and abandoned calls.

In support of our ongoing enforcement work to tackle silent and abandoned calls, we announced a five-point action plan in January 2013, bringing together industry, regulators and Government to address the wider issue of nuisance calls.

The five-point plan encompasses:

- new research to help understand the frequency of the different types of nuisance calls and the companies and sectors generating them;
- call tracing initiatives, in collaboration with industry, to develop new ways of tracing companies behind nuisance calls, where they try to hide their identity;
- improving compliance by writing to those businesses making calls in the UK, warning them of the requirement to abide by Ofcom's rules on silent and abandoned calls;
- co-ordinated action, with other regulatory bodies, such as the Information Commissioner's Office and Government, to tackle the wider issue of nuisance calls; and
- enforcement action to ensure companies comply with rules on silent and abandoned calls.

In October 2012, we published an online consumer guide to tackling nuisance calls and messages, in collaboration with other regulators and consumer groups.

The guide provides advice for consumers on how to combat the many different types of nuisance calls and messages, and who to complain to. The guide has been viewed online almost 130,000 times, making it the most widely-accessed consumer information area of Ofcom's website.

### Proposed measures to protect consumers from price rises during fixed-term contracts

Ofcom has received consumer complaints identifying issues concerning the clarity and effectiveness of rules relating to price increases within contracts that they believe to be fixed in price.

In January 2013, we launched a consultation on how to better protect consumers from mid-contract price increases. Our proposed approach is to modify one of our rules, General Condition 9.6, to allow consumers to exit their contract without penalty if their provider introduces any price increase during the term of the contract. This consultation has now closed and we are considering the responses extremely carefully before reaching a final decision.



### New guidelines for schemes ruling on consumer complaints

Ofcom wants to ensure that consumers can effectively seek redress of complaints with communications providers. We have a duty to ensure that consumers can access free Alternative Dispute Resolution (ADR) services.

ADR schemes act as an independent middleman between communications service providers and their customers when a complaint cannot be resolved. There are two Ofcom-approved ADR schemes: Ombudsman Services: Communications (OS) and the Communications and Internet Services Adjudication Service (CISAS).

In August 2012, we concluded a review of the schemes, looking at whether they still met the approval criteria, which cover a range of factors such as accessibility, fairness and effectiveness.

Ofcom found that both schemes continue to resolve disputes effectively and meet most of the criteria to warrant 'approved' status.

As a result of the review, we introduced new decision-making principles for the schemes to follow. These principles are designed to ensure that decision-makers at each scheme manage cases in a way that delivers more consistent outcomes for consumers who use the schemes.

### Working to help stop consumers receiving unexpectedly high mobile phone bills

Ofcom has continued to work to reduce incidents of mobile phone customers receiving unexpectedly high bills. During the past year, we conducted additional consumer research to better understand the causes and impacts of unexpectedly high bills, sometimes called 'bill shock', and to identify the most appropriate means to tackle them.

We identified roaming (using mobile phones abroad) as the key cause of unexpectedly high bills, and committed to tackling this as a priority.

We worked with the Department for Culture, Media and Sport (DCMS) on the implementation of the new Roaming Regulation in the UK, which came into effect in July 2012. We have engaged with operators to ensure they understand and comply with their responsibilities under the Roaming Regulation, while also encouraging them to take steps to help reduce the risk and impacts of unexpectedly high bills resulting from use of mobile phones in the UK.

Consumers' liability for very large bills resulting from unauthorised use when a phone is lost or stolen remains an issue. Ofcom raised this with DCMS in the context of its Communications Review, to consider whether the introduction of primary legislation might be appropriate to address this problem. We are continuing to engage with DCMS on this issue.

We also published new consumer guides and video guides, which provide advice for consumers to help them avoid running up unexpectedly high bills when using their mobile phone, both in the UK and when travelling abroad.

The guides were supported by consumer groups and other industry organisations including Citizens Advice, the National Mobile Phone Crime Unit, the Association of British Travel Agents, Rough Guides, Travel DK, PhonepayPlus, the National Consumer Federation and the Communications Consumer Panel.

### Publishing complaints data on telecoms providers

We publish quarterly complaints data, revealing which of the major telecoms and pay-TV providers receive the most and least complaints. We believe this can help consumers make informed decisions when considering a new service or provider, and also incentivises operators to improve their performance. Together with our other research, publication of complaints data ensures effective delivery against our priority to promote effective choice for consumers through the provision of clear information on service, price and quality. This is discussed on page 20.

### Helping consumers with hearing and/or speech difficulties

All communications providers have to provide access to 'text relay' services, which are vital for consumers with hearing and speech impairments to make and receive phone calls. Ofcom research found that the current system slowed down conversations and made it hard for them to flow naturally.

In October 2012, we confirmed the introduction of an improved text relay service, which communications providers must ensure is available from 18 April 2014.

The new service will introduce parallel two-way speech, which makes use of an internet connection to allow users to interject, allowing conversation to flow more quickly and naturally. It will also enable a wider range of equipment to access the service, including easier use of text relay on the move via mobile phones.

In addition, we recognise the potential significance of a video relay service for users of British Sign Language, particularly those who struggle with written English.

We commissioned an independent study of international provision of video relay, which we published in October 2012. We have also been working with Government, industry and disability groups to encourage the provision of video relay services by communications providers, businesses and other organisations.

### Tackling mis-selling of landline telephone services

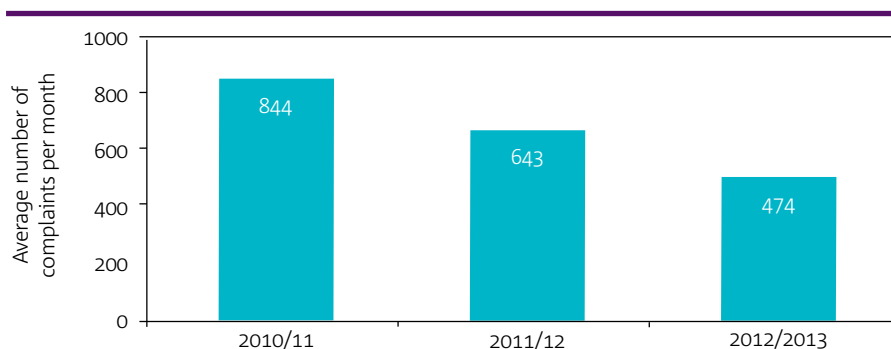
Ofcom is committed to ensuring that consumers are protected from mis-selling of landline telephone services. This includes ‘slamming’, which happens when a customer is switched to another provider without their express knowledge and/or consent. We also work with the Office of the Telecoms Adjudicator to address problems of consumers being switched in error due to problems in the switching processes.

We have an open monitoring and enforcement programme into landline mis-selling, through which we monitor industry-wide compliance with the rules by monitoring complaints to Ofcom and industry complaints. As shown in Figure 1, we continue to see a positive reduction in overall complaints about fixed-line mis-selling, from a peak of over 1,000 in June 2010.

During the past year, we have concluded an investigation into Axis Telecom for its contravention of an Ofcom rule: General Condition 24 (GC24), and specifically for misuse of the industry anti-slamming cancellation rules. We have issued a fine of £30,000.

Ofcom has also opened an investigation into Supatel Limited, trading as timetalk, concerning its compliance with GC24 and, specifically, the slamming prohibition GC24.3. This investigation is ongoing.

Figure 1: Complaints about fixed-line mis-selling



### Affordable and improved postal services

Ofcom’s regulation of the postal sector during 2012/13 involved work to both protect consumers’ access to the universal postal service and improve the service they receive.

In July 2012, we also extended the safeguard cap for Second Class stamps for letters to large letters and small parcels up to 2kg, giving consumers increased protection against price rises. In March 2013, as part of our detailed research on postal users’ needs, we set out how we plan to monitor the affordability of universal postal services on an ongoing basis.

Separately, we allowed Royal Mail to introduce improvements to its service, and in September 2012, its ‘Delivery to Neighbour’ scheme was rolled out nationwide. The new scheme now allows Royal Mail to leave certain mail items with a neighbour. Ofcom’s decision brings Royal Mail in line with other UK postal operators and saves consumers from the inconvenience of having to collect items from Royal Mail delivery offices or Post Offices.

### Content and standards in broadcasting

Ofcom has a range of duties in relation to broadcasting, which include securing adequate protection for the public from harmful or offensive material and from unfair treatment or unwarranted infringements of privacy. We must also ensure that there is a wide range of TV and radio services of high quality and wide appeal.

#### TV and radio licensing

Ofcom carries out its duties by granting broadcast licences, which come with conditions. These conditions include requirements to pay fees, to provide information, to offer specific programmes and types of content, and to comply with various codes of practice issued by Ofcom.



### Licensing local TV

This year Ofcom completed the first phase of licensing of local TV services, awarding licences for new channels in 19 locations across the UK, as well as the licence to run the local TV multiplex. This followed new powers granted to Ofcom by Parliament. The first local TV services could be on air by the end of 2013. Currently we are in the process of conducting a second phase of local TV licensing.

### Community radio

Over 200 community radio stations are now broadcasting in locations across the UK. Since Ofcom awarded the first community radio licence in 2005, a new station has launched on average every 13 days, each serving a particular community's needs. Over the past year, Ofcom has awarded new licences in Scotland, Wales and the south-west of England.

### Broadcasting complaints and investigations

Audience complaints about broadcasters' possible breaches of their obligations play an important role in ensuring that viewers and listeners are appropriately protected. Ofcom assesses each complaint it receives against the Broadcasting Code, other relevant code or licence condition. We then decide whether a complaint raises potential issues that require further investigation. During the past year, Ofcom assessed 16,151 complaints about broadcasting standards or licence conditions (down from 21,484 in the previous year), and 183 complaints about unfairness and/or unwarranted infringements of privacy (compared to 288 in the previous year). Further information on this work is given in the Annex on pages 109 and 110.

### Protecting under-18s

Ofcom has a statutory duty to protect those aged under 18 in relation to broadcasting. We consider this to be one of our most fundamental duties. Our Broadcasting Code contains a number of rules to protect children from unsuitable programmes, including rules about the television watershed at 9pm.

### Protecting children and upholding the watershed

As part of our continued work to enforce the watershed, Ofcom has taken action against a number of broadcasters for broadcasting content before the watershed that was unsuitable for children.

In November 2012, Ofcom imposed a fine of £40,000 on E! Entertainment for broadcasting the post-watershed reality series *Girls of the Playboy Mansion* during the daytime in school holidays. The programme contained sexual content that was unsuitable for children.

### Protecting children who participate in television programmes

Following recent cases involving the participation of children in programmes, we are reminding all broadcasters of the paramount importance of complying with the relevant rules. Ofcom is currently conducting spot checks of programmes involving under-18s to monitor compliance.

### New content on ParentPort

In February 2013, we launched new content on ParentPort – the website set up by the UK's media regulators to make it easier for parents to complain about material they have seen or heard across the media, communications and retail industries. The new tool provides a range of advice and tips for parents on how to keep their children safe in a multi-media world.

## Actions against adult content

### On-demand services

In January 2013, Ofcom imposed a fine of £100,000 on Playboy for failing to protect children from potentially harmful pornographic material on two on-demand programme services (ODPS) it provided. Two websites owned by Playboy allowed users to access hardcore videos and images without having acceptable controls in place to check that users were aged 18 or over.

In December 2012, we imposed a £60,000 fine on Strictly Broadband Limited for its ODPS, provided through its website Strictly Broadband, for similar breaches.

Both service providers were referred to Ofcom for consideration for sanction by the Authority for Television on Demand (ATVOD), the co-regulator for ODPS in the UK.

### New guidance on daytime and adult chat services

Following several breaches of the UK Code of Broadcast Advertising, we issued updated guidance to daytime and adult chat broadcasters to make it clear what sort of content is unsuitable for broadcast without mandatory restricted access.

### Protection against extremist views

Ofcom has a duty to protect audiences from the inclusion of harmful material in television and radio programmes. We also have duties to ensure that material which may encourage or incite crime or disorder is not included in television and radio services, and that religious programmes are treated with the proper degree of responsibility. We have strict rules in place to uphold these duties, and where we find that broadcasters have broken those rules, we take firm and robust enforcement action.

In the past year, Ofcom has found a number of broadcasters in breach for broadcasting harmful material in the area of incitement to crime, and offensive or abusive treatment of religion. These included sanctions against Noor TV, Takbeer TV and Sangat TV for serious breaches of the Code.

In December 2012, Ofcom imposed a fine of £4,000 on Radio Asian Fever for broadcasting two programmes that included statements which Ofcom considered were likely to encourage or incite crime against gay people.

## International

Ofcom engages closely with other national regulatory authorities, the European Union (EU) institutions and relevant global bodies. We do this with a view to exchanging regulatory best practice and, where appropriate, influencing decisions taken in international fora to ensure that as far as possible they are practical, proportionate and best reflect the interests of UK citizens and consumers. In 2012/13, Ofcom:

- welcomed 61 groups of international visitors from global peers, academic institutions and industry on issues covering the whole range of Ofcom's responsibilities;
- gave the keynote address at the International Institute of Communications Annual Conference in Singapore and met with key regulators, Government ministries and companies in Singapore and South Korea in order to share best practice;
- participated in the work of the Body of European Regulators in Electronic Communications (BEREC).
- During 2012, Ed Richards, Ofcom's Chief Executive, served on BEREC's Board as Vice-Chairman responsible for next-generation networks as well as BEREC's strategy and communications. Key regulatory policy issues for BEREC in 2012/13 included international roaming, next-generation access network regulation and net neutrality;
- represented UK interests at the International Telecommunication Union (ITU), including at the 2012 World Telecommunication Standardisation Assembly and supported the Government at the World Conference on International Telecommunications (WCIT);
- continued to play a strong role in European and global organisations responsible for spectrum including the EU Radio Spectrum Policy Group and the CEPT Electronic Communications Committee (ECC);
- continued our contribution to the work on broadcasting content regulation carried out by the European Platform of Regulatory Authorities (EPRA) including through our presence on EPRA's Board;
- participated in the work of the European Regulators Group for Postal Services (ERGP) and in the European Committee for Postal Regulation (CERP); and
- chaired the Organisation for Economic Co-operation and Development (OECD) Working Party on Communication, Infrastructures and Services Policy (CISP), and hosted an OECD workshop which reviewed and revised a set of metrics for broadband and the internet economy.

## Spectrum

Apart from the spectrum auction (see page 17) and the London 2012 Olympic Games and Paralympic Games (see page 19), we acted on a wide range of spectrum-related issues during the year.

### Spectrum liberalisation

In February 2013, Ofcom proposed to liberalise all mobile licences in the 900 MHz, 1800 MHz and 2100 MHz bands, to permit the deployment of 4G services, and to vary the power levels permitted for 3G and 4G technology used in the 900 MHz band. This would mean that 2G, 3G and 4G technology would be permitted across all mobile spectrum licences, and would meet our long-standing objective to remove regulatory barriers that restrict the use of the latest available mobile technology in certain spectrum bands.

### UHF strategy

Consumers' demand for data – especially mobile data, driven by smartphones and faster networks – is growing rapidly. We believe that consumers will benefit if new spectrum is released to help meet this demand. At the same time, we believe it is important that digital terrestrial television (DTT) has access to sufficient spectrum to be able to continue to deliver the important consumer benefits associated with it.

Our *UHF Strategy Statement* concluded that releasing the 700 MHz frequency band (currently used for DTT) for mobile broadband could play a particularly important role in helping meet consumer demand for data services.

However, if such a change of use were to occur, additional spectrum would probably need to be made available to the DTT platform. In the light of these considerations, the UHF Strategy Statement provided that we will seek to:

- enable a harmonised release of the 700 MHz band for mobile broadband use; and
- ensure that the DTT platform can access the 600 MHz band, assuming that change of use at 700 MHz takes place.

Following publication of the Statement, we have initiated a project to implement this strategy. A key goal of this project is to ensure that, should a change of use of the 700 MHz band occur, it happens in such a way as to maximise net benefits to citizens and consumers. Additionally, we opened a consultation, setting out our proposals for the award of a licence to establish temporary DTT multiplexes in the 600 MHz band. The award of the spectrum in the 600 MHz band would mark the completion of frequency reallocations arising from the digital dividend.

### Supporting the release of MoD's spectrum

In October 2012 Ofcom agreed to provide technical and policy advice to support the Ministry of Defence's (MoD's) plans to release around 200 MHz of spectrum including 40 MHz between 2350 and 2390 MHz, and further spectrum in the 3.4 GHz band. This is part of the Government's commitment to release 500 MHz of spectrum for new civil uses by 2020.

A detailed division of responsibility for the technical tasks, policy decisions and stakeholder management issues between Ofcom and MoD has been agreed. Ofcom fully scoped the project in 2012/13, and is aiming to produce a technical consultation on potential co-existence issues during the course of 2013/14.

## Competition

Ofcom has a range of duties based around promoting and ensuring competition. These include implementing competition policy under our sectoral powers: for example, reviewing markets, competition law enforcement, consumer law enforcement and resolving disputes.

Ofcom has concurrent powers under the Competition Act 1998 to deal with anti-competitive behaviour in broadcasting, spectrum, telecoms and post. We also have the power to apply Article 81 and Article 82 of the Treaty on the Functioning of the EU, in addition to the Chapter I and Chapter II prohibitions of the Competition Act.

### Non-geographic numbering

Ofcom's plans to reform the way millions of telephone calls are charged are nearing conclusion and we expect to publish our final statement in summer 2013. Non-geographic numbers – such as those starting 084, 087, 09 and 118 – are used every day by telephone users to contact businesses, public services and other public organisations.

We have proposed that from early 2015, the cost of calling these numbers will be split into two simple elements: the service charge (a specific fee levied by the service provider, which must be advertised along with the service); and the access charge (a fee levied by the caller's telephone company for any non-geographic calls made within the caller's tariff). By adding the service charge to the access charge, telephone users will know exactly what the call will cost to make.

As part of the reforms, 080 numbers will become free from all phones, including mobiles, and the service charge for calling 09 premium rate numbers will be capped. Together, these measures are designed to increase consumers' confidence in using non-geographic numbers, and to promote competition through more transparent pricing.

### Geographic numbering

Measures to conserve the UK's supply of geographic telephone numbers are now under way. In November 2012, Ofcom closed local dialling in the Bournemouth area, requiring people to use the dialling code even when calling within the local area. The process went smoothly, and Ofcom expects to implement this measure in other areas where there is an acute shortage of number blocks in the coming years.

### Fixed narrowband, WLA and WBA reviews

Ofcom reviews major telecoms markets periodically, and in 2012 we began several projects to assess competition and to ensure that a suitable regulatory framework is in place over the coming years. The Fixed Access Market Reviews examine wholesale markets, including local access (the connection from the local exchange to the telephone

customer), fixed analogue exchange lines (products which allow telephone companies to offer voice services from the exchange) and various markets for ISDN – digital telephone lines used by businesses for, among other things, video conferencing.

We are also examining the supply of wholesale broadband access (WBA): the products which communications providers use to connect users to the internet. The purpose of the review is to consider the state of competition in the WBA markets to determine whether they are effectively competitive. Since we last reviewed these markets, superfast broadband has started to take off and consumer demand for data has continued to soar, driven by applications such as video streaming.

We will consult in detail on these reviews in summer 2013, together with work to examine the performance of Openreach and to establish how charge controls might be set, should the fixed access review find them necessary. The reviews are expected to conclude in early 2014.

### Competition in the postal sector

In addition to work relating to our primary duty to ensure that a universal postal service is provided in the UK, covered on page 22, during 2012/13, we conducted a range of other work in respect of the postal sector. We published our first annual monitoring statement in October; consulted on our review of Royal Mail's Postcode Address File, proposing that Royal Mail should radically simplify its licence structure; and started our review of the rules surrounding mail integrity and common operational procedures.

### Resolving telecoms industry disputes

During 2012/13, we resolved six dispute cases between telecoms companies. Five of these related to BT's compliance with its cost-orientation obligations for certain wholesale products (our reasoning was set out in two separate explanatory statements). The determinations we issued in 2012/13 in relation to these cases were made following our findings that BT had overcharged the disputing parties, and we required BT to make repayments of £97,719,800 to them. In addition, as at 1 April 2013, there were a further five ongoing dispute cases, three of which have since been resolved. These disputes cover a wide range of issues; from BT's tiered wholesale call termination charges for NTS numbers (those generally starting 08 or 09) to service level agreements for local loop unbundling services.

The Competition Group Investigations team investigates complaints about anti-competitive behaviour as well as breaches of certain regulatory rules (including number portability and access to 999 services). A summary of this, and the activities of the Consumer Protection Team, is given in the Annex on page 108.

# How we work and who we work with

## Ofcom's duties and powers are set out in statute.

As the independent regulator for the communications industries, we are required by the Communications Act 2003 to further the interests of citizens and consumers.

We are funded both by stakeholders (television and radio broadcast licence fees and administrative charges to regulate communications networks and postal providers) and through grant-in-aid funding from the UK Government. Further details of our funding arrangements can be found in the Operating and Financial Review in Section D.

Every year, following consultation, we publish our Annual Plan, which outlines new initiatives and ongoing activities that we carry out in support of our duties.

## Measuring and communicating outcomes

In our 2012/13 Annual Plan, we identified 13 priorities with around 40 projects and programmes allocated against them. Underpinning this is the requirement to meet our Spending Review settlement with the Treasury by delivering efficiencies throughout the organisation. Ofcom, as has been set out in this Report, made significant progress delivering outcomes against many of its Annual Plan priorities and 'business as usual' work in 2012/13.

Ultimately, we believe that our performance should be judged by the outcomes that are delivered for citizens and consumers as a result of our work. We measure these outcomes rigorously, in a number of ways, using a comprehensive and robust framework for measuring, reporting on and communicating our performance, both internally and externally. During the past two years we have focused on how we communicate these outcomes, and have sought to measure our own performance as we progress through the lifetime of a work programme. The table on pages 12 to 14 measures our performance for the 13 priorities we set out in our 2012/13 Annual Plan.

To help monitor whether our work is successful in achieving the desired outcomes, we conduct in-depth, periodic consumer research, which we publish regularly in an accessible form on our website. We publish the data in a range of Ofcom publications including the *Communications Market Report*, the *International Communications Market Report*, the *UK Infrastructure Report*, the *Consumer Experience report*, our media literacy reports and the *Public Service Broadcasting Annual Report*.

## When we regulate

The Communications Act requires us to have regard to the principles of better regulation: that regulation should be transparent, proportionate, consistent, accountable and targeted only at cases where action is needed. When Ofcom was established, we built on these principles by developing a more specific set of regulatory principles to inform our day-to-day work. The speed with which the communications sector is changing makes it especially important for us to have clear guiding principles.

## Ofcom's regulatory principles

### When we regulate

Ofcom will operate with a bias against intervention, but with a willingness to intervene promptly and effectively where required.

Ofcom will intervene where there is a specific statutory duty to work towards a goal that markets alone cannot achieve.

### How we regulate

Ofcom will always seek the least intrusive regulatory methods of achieving its objectives.

Ofcom will strive to ensure that interventions are evidence-based, proportionate, consistent, accountable and transparent in both deliberation and outcome.

Ofcom will regulate with a clearly articulated and publicly reviewed annual plan, with stated objectives.

### How we support regulation

Ofcom will research markets constantly and will aim to remain at the forefront of technological understanding.

Ofcom will consult widely with all relevant stakeholders and assess the impact of regulatory action before imposing regulation on a market.

## Reducing regulation

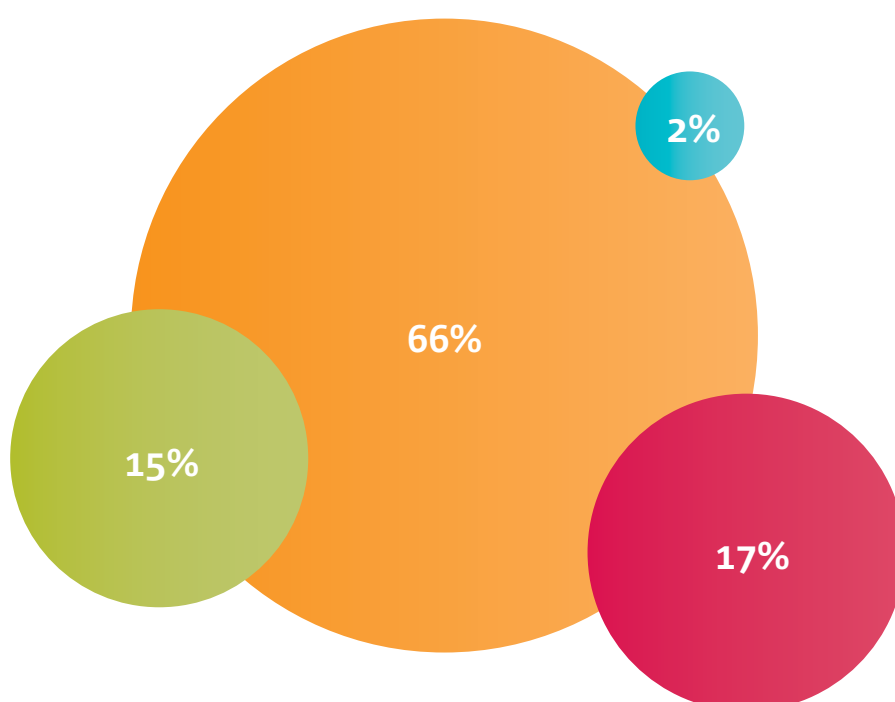
Ofcom is focused on reducing regulation where possible. We believe that 'better regulation' is ensuring that regulation is properly targeted and does not impose undue burdens on stakeholders.

However, where necessary, we take decisions to increase or strengthen regulation, typically in order to safeguard the interests of citizens and consumers and protect them from harm.

Figure 2 provides an overview of how the regulatory burden on stakeholders changed as a result of Ofcom's regulatory decisions and statements in 2012/13.

Figure 2: Impact of our statements on the regulatory burden to stakeholders in 2012/13

	Number	%
Reduced regulation	7	15
Streamlined/co-regulatory	1	2
Mixed/no change/ongoing	31	66
Increased/new regulation	8	17



An overview of the key decisions and statements that we have made during the year can be found in the tables in the Annex on pages 103 to 105.



## Relationships with stakeholders

Ofcom's role as a regulator requires us to engage with a wide range of stakeholders, including companies and industry bodies in the sectors we regulate, consumers and consumer groups, the UK Government and devolved institutions, co-regulators and other regulators. We are members of the Joint Regulators' Group, and we also engage with various international organisations and regulatory bodies.

Ofcom has a statutory duty to take into account in its decisions the views and interests of those who live in different parts of the UK. Our operations in the nations are led by senior Directors in Glasgow, Cardiff, Belfast and London, who work to ensure that the views, needs and special circumstances of the nations receive Ofcom's attention.

Ofcom's Advisory Committees in each of the nations provide us with detailed and expert insights into the particular challenges faced by citizens and consumers in different parts of the UK. National interests are also represented by members of Ofcom's Content Board and the Communications Consumer Panel.

### Consultations

Consultations allow stakeholders to comment on and respond to our proposals before a decision is made. If the period for consultation is too short, some of those with important views to share may not have enough time to prepare their responses. If it is too long, the market concerned may have changed dramatically. This could affect our ability to deal with an issue as quickly as the stakeholders involved would like. When we decide

how long a consultation should last, we need to strike the right balance between these two considerations.

There are generally three categories of consultation:

- Category 1: consultations which contain major policy initiatives and/or are of interest to a wide range of stakeholders (especially those who may need a longer time to respond); in these cases we will normally consult for ten weeks.
- Category 2: consultations which, while containing important policy proposals, will be of interest to a limited number of stakeholders who will have awareness of the issues; in these cases we will normally consult for six weeks.

## Contact with consumers and citizens

Understanding consumer and citizen interests and behaviour is vital to our work. Ofcom makes extensive use of market research to understand trends in the take-up and use of communications services and the behaviour and concerns of consumers. Our annual Consumer Experience and Communications Market Report, in particular, highlight and analyse these trends. Ofcom's Consumer Contact Team received over 80,000 calls directly from consumers in the year, and the information that consumers provide helps us target our policy-making and enforcement work.

Consumers can also contact us through our website. While we cannot resolve individual complaints about communications services, we provide advice to complainants and refer them to the Alternative Dispute Resolution (ADR) schemes that we have approved. We do, however, handle complaints about TV and radio programmes.

We also hold regular discussions with consumer stakeholder organisations, and consultation meetings on specific topics. The Communications Consumer Panel consists of independent experts, who work to protect and promote people's interests in the communications sector.

It carries out research and provides expert advice to Ofcom, Government, the EU, industry and others on communications issues experienced by consumers, citizens and small businesses. The Consumer Forum on Communications, with over 50 members from consumer bodies, meets every quarter with Ofcom to discuss consumer policy topics.

- Category 3: consultations which fall within one or more of the following categories, where the normal time period for consultations is one month:
  - technical issues;
  - minimum statutory consultation period;
  - there is a need to complete the project in a specified timetable because of market developments or other factors which require the project to be concluded within a short period;
  - the issue has already been the subject of a consultation;
  - a proposal will have a limited effect on a market; or
  - a proposal is only a limited amendment to an existing policy or regulation.

Figure 3 sets out an analysis of the length of our consultations by sector.

Ofcom collects statistics on the number of responses to consultations, as shown in Figure 4. We received 1,147 responses in total in 2012/13, up 17% from last year (980).

### Timeliness of decision-making

We analyse how long it takes us to publish a decision following the close of a consultation (see Figure 5). In 2012/13, over 80 per cent of decisions were announced within 20 weeks of closing a consultation, the majority of which were within 10 weeks.

Figure 3: Analysis of consultation duration: 2012/13

	Consultation period at least 10 weeks	Consultation period less than 10 weeks (including category 2 and category 3 consultations)
Telecoms	7	12
Broadcasting	3	7
Spectrum	1	13
Post	1	10
Other	–	1
<b>Total</b>	<b>12 (=22%)</b> (In 2011/12 38%)	<b>43 (=78%)</b> (In 2011/12 62%)

Figure 4: Responses to consultations in 2012/13

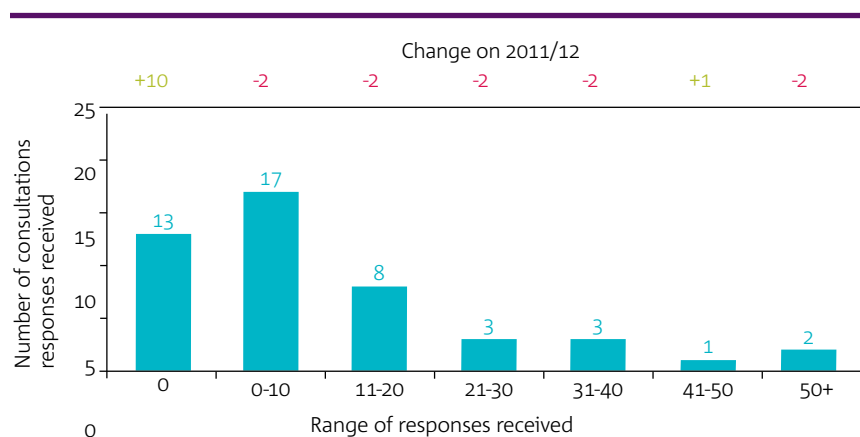
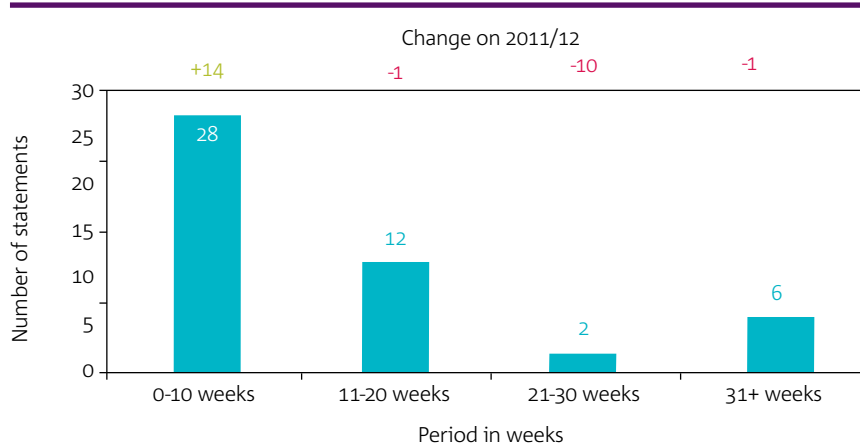


Figure 5: Analysis of the time taken to publish an Ofcom decision from the close of the consultation period: 2012/13



### Impact Assessments

Impact assessments (IAs) are an important part of the decision-making process. Section 7 of the Communications Act requires us to carry out an IA when we are proposing to do anything for the purposes of, or in connection with, the carrying out of our functions and we consider the proposal to be important. Impact assessments ensure, among other things, that in relation to our decisions:

- a wide range of options are considered, including the option of not regulating;
- these options are clearly presented;
- the potential impacts that would flow from each option are analysed carefully; and
- the costs associated with the chosen option are outweighed by the benefits.

Ofcom must publish a list of the IAs carried out during the year, which appears in the Annex on pages 106 and 107.

In July 2005, we published guidelines: *Better policy-making: Ofcom's approach to impact assessment*, which emphasised Ofcom's commitment to conducting assessments as an integral part of the policy-making process, and stated that we expected to carry out IAs in the great majority of our policy decisions.

Figure 6 highlights that, in 2012/13, 60 per cent of consultation documents contained an impact assessment, set out in a specific section or annex of the consultation document, largely unchanged on last year. In some circumstances, it may be either unnecessary or inappropriate to conduct an IA. We will continue to ensure that impact assessments are carried out and properly presented in all relevant cases.

### New and revised duties

In 2012, the UK Government made a number of Orders under the Communications Act 2003 and the Wireless Telegraphy Act 2006 which gave Ofcom the necessary powers and duties to license a new generation of local television services.

In particular, they created a legislative framework for licensing local television services, directed Ofcom to reserve spectrum for these services, and established the status of these services in relation to Electronic Programme Guides (EPGs). Ofcom carried out the first phase of local television licensing during 2012/2013, and has invited expressions of interest in a second round of such licensing.

### Co-regulators

Ofcom shares regulatory responsibilities in certain areas with other regulators.

The Authority for Television on Demand (ATVOD) has responsibility for handling complaints relating to editorial content of UK-based video-on-demand (VoD) services. ATVOD's designation as a co-regulatory partner was subject to a formal review during the year. We detail the outcome of this review on page 24.

Ofcom also has a co-regulatory partnership with the Advertising Standards Authority (ASA), which was formed in 2004. This covers broadcasters and advertising on video-on-demand services. Broadcasters are obliged to comply with the Advertising Codes under their broadcast licences issued by Ofcom. When the ASA adjudicates on an advertisement, broadcasters comply with rulings immediately under the conditions of their licences. However, where necessary, the ASA is able to refer licensees to Ofcom.

PhonepayPlus is another regulatory agency that carries out day-to-day regulation on behalf of Ofcom. PhonepayPlus works with the industry and enforces a code of practice for premium-rate services, which enable consumers to purchase goods and services by charging the cost to their phone bills and pre-pay accounts.

Figure 6: Analysis of impact assessments carried out

Number of consultation documents	Total	IA explicit in published document
Telecoms	19	12
Broadcasting	10	5
Spectrum	14	9
Post	11	7
Other	1	0
<b>Total</b>	<b>55</b>	<b>33 (=60%)</b>

# Our employees

## Ofcom's mission and values

Board Members and Ofcom colleagues have a shared commitment to Ofcom's mission and values and undertake the organisation's work by reference to these core values. Colleagues across the organisation were instrumental in developing the six values that reflect our desire to work in an open, effective and people-driven way.

We strive to be dynamic, responsive and commercially aware: incisive thinking, rigorous evidence-based analysis and engagement with stakeholders are crucial to our effectiveness as an organisation.

## Colleague involvement and consultation

Colleague involvement is actively encouraged as part of our day-to-day processes. We inform and consult colleagues through:

- the Ofcom Colleague Forum, a consultation forum which is made up of representatives of colleagues from across Ofcom and which meets regularly with senior management at Joint Consultative Group meetings (which include two members from the union);
- the Ofcom intranet, which is available to all colleagues in all of Ofcom's offices;
- presentations hosted by senior managers during which new strategic initiatives are explained to colleagues and updates are provided regarding continuing projects;

- regular group meetings both to listen to colleagues and to disseminate information; and
- regular messages from the Chief Executive.

We also carry out regular surveys through which colleagues have the opportunity to contribute their views on a range of topics. The outcomes from these surveys provide a key foundation for much of our organisational development work. In 2012 we ran a comprehensive colleague survey and followed this up with workshops and action plans to address issues colleagues had raised.

## Professional development and employment policies

The quality and commitment of our people are central to our ability to fulfil our duties. During 2012 we rolled out an organisation-wide training programme, which included sessions covering specific industry knowledge on the sectors Ofcom regulates. We also run an internal mentoring scheme and encourage colleagues to study for professional qualifications. For our most senior managers, we ran a development programme aimed at improving the leadership skills and capabilities within the organisation.

We are committed to ensuring that all colleagues are treated fairly, with dignity and respect. We have reviewed our HR policies to ensure that they are up-to-date and consistent with our organisation's values, as well as with the requirements of employment law.



## Absence

Ofcom encourages a culture where good attendance is expected and valued. However, we recognise that from time to time absences for medical reasons may be unavoidable. Ofcom aims to treat its staff who are ill with sympathy and fairness and where possible to provide them with support which will enable them to recover their health and attend work regularly. In 2012/13, the number of working days lost was 4.14 days per annum per employee (2011/12: 4.0 days). This compares favourably to the public sector average of 7.9 days per annum per employee in 2012 (2011: 9.1 days)<sup>1</sup>.

## The Ofcom values are:

- communicating openly and honestly;
- listening with an open mind;
- making a difference;
- empowering and prioritising;
- investing in and supporting our colleagues; and
- genuine collaboration.

<sup>1</sup> CIPD Absence Management 2012: Public Sector, published October 2012.

# Corporate responsibility

## Ofcom's commitment to equality, diversity and human rights

As an employer, we are committed to equality of opportunity for all colleagues, irrespective of race, disability, gender (including gender re-assignment), age, religion or belief and sexual orientation.

This commitment sits at the heart of our employment policies and our approach to training and career development.

Our Single Equality Scheme (SES) is central to our determination to do what we can to promote equality and diversity inside our organisation, and we have already delivered some of our key objectives in the scheme.

In 2012 we published our equal pay audit, which showed that, while there were some differences in levels of pay among colleagues doing similar roles, there did not appear to be a bias for colleagues of one gender to be paid more than the other gender for equal work.

We also reported on the diversity composition of our colleagues and used the findings to help us consider what we might need to do in relation to recruiting and retaining a diverse mix of employees. As part of our commitment to increasing the gender mix of our engineering staff, we sponsored the Institute of Engineering's 'Young Female Engineer of the Year' award.

In 2012 we published an updated Equality Scheme for Northern Ireland. This sets out how we will promote equality of opportunity and good relations across different groups of people when carrying out our functions relating to Northern Ireland.

We have continued to take part in benchmarking activities to ensure that we are operating in line with best practice. We were pleased to improve our score in the Stonewall Workplace Equality Index for the third year running. This looks at our attitude to lesbian, gay and bisexual staff. We were also named in the Top Ten Business in the Community lists for our work on gender (Opportunity Now) and race (Race for Opportunity), and were included in the Times Top 50 Employers for Women.

## Corporate responsibility

Ofcom is committed to ensuring that not only are we a responsible employer towards our colleagues, but also that we manage our impact on the wider community. Our Corporate Responsibility purposes are to:

- treat all colleagues with dignity and respect in an inclusive and fair working environment, promoting equality of opportunity for all;
- reduce our carbon footprint, provide value for money and ensure that Ofcom's practices are environmentally sustainable; and
- engage, inspire and develop colleagues while proactively seeking to support our local community.

Other achievements have included improvements in the accessibility of our website and publications, the inclusion of an equality element in our research and the provision of more support to our disabled colleagues.

In the wider community we have expanded the reading mentoring scheme which we run with a local primary school in Southwark, giving colleagues the opportunity to coach young children to improve their literacy skills. In addition, we work with Career Academies UK, mentoring 16-to-17-year-old students and helping them prepare for corporate life, and in summer 2012 we hosted four interns from local academies. We also hosted our first interactive session on communications technologies for some of our older stakeholders.

# Sustainability report

This section presents an overview of Ofcom's sustainability strategy and our performance in this area. It also contains sustainability data and associated financial costs which have been presented in a format that conforms to the sustainability reporting guidelines issued by HM Treasury for 2012/13.

## Ofcom's sustainability strategy

### Introduction

Ofcom commissioned an independent carbon audit in 2007, and subsequently committed to reducing its internal carbon emissions by 25 per cent by the end of 2012/13 (relative to a 2007 baseline). Ofcom's Footprint and Sustainability project was set up to identify and drive forward actions to ensure that Ofcom meets its carbon reduction commitment and that its practices are environmentally sustainable. Footprint and Sustainability is one of three workstreams within Ofcom's overall Corporate Responsibility programme (see page 42).

### Overview of reduction targets

Ofcom's 25 per cent reduction target represents a reduction in seven areas: information services, utilities, waste, business travel, procurement materials, procurement capital and commuting. In 2009, Ofcom commissioned a second independent carbon audit which confirmed that a 15 per cent reduction in carbon emissions had already been achieved.

A subsequent audit in 2012 confirmed that a further 6 per cent reduction had been achieved, bringing the total reduction to 21 per cent. A final carbon audit in 2013 (based on 2012/13 data) will confirm whether Ofcom has achieved its overall 25 per cent reduction target. Further detail about Ofcom's sustainability performance and progress can be found on our website.

### Governance

The Footprint and Sustainability project reports to the Corporate Responsibility Steering Group (CRSG). Members of the CRSG hold senior management positions within Ofcom and set the strategic direction of work. Any proposal with an environmental impact is submitted for guidance and approval from the CRSG before implementation. The CRSG provides bi-annual progress reports directly to Ofcom's Executive Committee.

## 2012/13 Performance

### Greenhouse gas emissions

We have continued to monitor greenhouse gas emissions across various sources.

We have made significant investment in energy-saving infrastructure over the past few years, and regularly review heating, cooling and lighting settings. Ofcom has an energy policy which guides energy-related decision making and supports an effective energy management strategy.

We continue to encourage colleagues to make use of video-conferencing facilities across our UK offices, and have put in place a number of strict travel policies.

Ofcom has a fleet of vehicles used by our Spectrum Engineering and Enforcement colleagues, chosen, in part, for their low emissions per mile, and we monitor fuel use on a monthly basis.

### Waste minimisation and management

Ofcom has a no waste to landfill policy in its London office. We recycle paper, cardboard, cans, plastics, glass, batteries, toners and CDs. All disposal of ICT equipment complies with the Waste Electrical and Electronic Equipment Directive (WEEE).

### Finite resource consumption

Water consumption comes primarily from washrooms and drinking water in all offices, as well as catering facilities in our London office. Ofcom monitors water consumption on a monthly basis.

### Biodiversity action planning

Biodiversity is not a significant consideration for Ofcom and we do not undertake data collection in this area.

### Sustainable procurement

Ofcom is keen to encourage sustainability from its suppliers. The pre-qualification questionnaire that Ofcom uses as part of its tender process to procure goods and services from outside organisations includes the following question: “Please provide evidence of compliance with the Eco-management audit scheme or any other relevant recognised environmental standard with which your company complies which is relevant to the subject of the contract.”

### Other

Ofcom was identified as one of London Organising Committee of the Olympic and Paralympic Games’ (LOCOG) key technology partners. Ofcom has worked with LOCOG over the past three years to support the delivery of the first sustainable Games. Following the Games, Ofcom completed a retrospective estimate of the carbon footprint associated with its role in delivering spectrum services to the Games and this was published as part of the *Ofcom and the London 2012 Olympic and Paralympic Games* report in December 2012.

### Future plans

Our final carbon audit in 2013 will confirm whether we have achieved our overall carbon reduction commitment.

In the coming years, Ofcom will continue its regular monitoring of carbon emissions, with particular focus on energy consumption and waste management. We will also continue to promote sustainable behaviour to our colleagues.

A summary of Ofcom’s emissions over the past five years is provided in Figure 7. Please refer to the Annex on pages 115 and 116 for more detail.

**Figure 7: Sustainability performance overview**

		Performance Year				
		2008/09	2009/10	2010/2011	2011/12	2012/13
Greenhouse Gas emissions (Scopes 1,2)	tCO <sub>2</sub> e	2,332	2,256	2,264	1,934	1,862
	Expenditure	£591,764	£657,649	£623,059	£486,769	£457,486
Business Travel	tCO <sub>2</sub> e	453	371	375	405	437
	Expenditure	£987,034	£820,896	£627,606	£713,021	£705,867
Waste	Tonnes	100	156	150	159	166
	Expenditure	£63,828	£56,181	£62,256	£53,345	£46,068
Water	Consumption (m <sup>3</sup> )	9,263	9,915	10,495	7,715	9,454
	Expenditure	£28,065	£21,505	£18,573	£22,771	£26,610

\* Business travel emissions have increased due to enhanced levels of regulatory activity in Europe during 2011/12 and 2012/13.

# Governance statement



In the earlier sections of this report, we highlighted the priorities and activities of Ofcom during the past financial year. In this overview we discuss the framework of governance Ofcom deploys to lead the organisation and underpin the achievement of its objectives, while ensuring that we safeguard public funds.

The statutory framework establishing Ofcom sets out clearly that it is an independent body. This principle of independence is at the heart of effective regulation and is fundamental to Ofcom's oversight of the communications sector. It underpins Ofcom's decision-making and provides the clarity and certainty that encourages much of the investment in the sector, which is to the benefit of citizens and consumers.

The Ofcom Board strongly upholds this principle of independence, both in the appointment of its members and in its deliberations. The Ofcom Board is the key decision-making entity for Ofcom and works together with Ed Richards, as Ofcom's Accountable Officer, to ensure that an appropriate and effective governance structure is in place. Ofcom's corporate governance framework is built around the structure, illustrated in Figure 8, which is

underpinned by a rigorous system of internal control, risk management and assurance, and in this statement, we will examine each part of the structure in more detail. Our strategy for each component part of the structure is regularly reviewed to ensure its continued relevance and effectiveness.

The Board is constantly developing, and its membership offers a strong balance of skills, knowledge and experience. It is supported in its work by a number of committees, including the Content Board, the Communications Consumer Panel, five statutory Advisory Committees and the Ofcom Spectrum Advisory Board, which together complement, enhance and support the work of the Ofcom Executive. The work of these parts of the governance structure in advising both the Ofcom Board and the Ofcom Executive is extremely valuable and we thank all of the members of these bodies for their challenging and incisive advice and decision making. Ofcom could not function as well as it does without their continued support.

With all parts of the governance structure engaged in Ofcom's activities, we ensure that all strategic policies to be implemented by Ofcom, together with all other areas of performance,

responsibility and accountability, are robustly challenged. Such challenge results in strong, well-founded, evidence based and high-quality decision making, both at Board level and across the wider organisation.

**Colette Bowe, Chairman and Ed Richards, Chief Executive and Accountable Officer**

18 June 2013



**Figure 8: Components of Ofcom's governance structure**



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## The Ofcom Board

The Ofcom Board strongly upholds the principle of independence, which is at the heart of effective regulation.



**Colette Bowe**



**Dame Patricia  
Hodgson, DBE**



**Ed Richards**



**Dame Lynne  
Brindley, DBE**



**Tim Gardam**



**Mike McTighe**



**Lord Blackwell**



**Stuart McIntosh**



**Jill Ainscough**

**COLETTE BOWE**

Colette Bowe became Non-Executive Chairman of the Ofcom Board in March 2009. She trained as an economist and has held a number of senior roles in the public and private sectors. Amongst her current roles, she is the Chairman of Electra Private Equity plc, Chairman of the Associated Board of the Royal Schools of Music and a Board Member of Axa Deutschland GmbH and the UK Statistics Authority. She is a Member of the Nominations, Remuneration and Risk and Audit Committees.

**DAME PATRICIA HODGSON, DBE**

Dame Patricia Hodgson, DBE was appointed as a Non-Executive Member of the Ofcom Board on 1 July 2011 and became Deputy Chairman on 1 January 2012. She was appointed Chair of the School Teachers' Review Body in 2012. She is Chairman of Ofcom's Nominations and Remuneration Committees and a member of the Risk and Audit Committee, which she chaired during Mike McTighe's leave of absence.

**ED RICHARDS**

Ed Richards has been Chief Executive of Ofcom since October 2006, having joined the Board in 2003. He is currently a Non-Executive Director of Thames Water Utilities Limited and the Donmar Warehouse, a Governor of the London School of Economics, and a Trustee of The Teaching Awards Trust.

**DAME LYNNE BRINDLEY, DBE**

Dame Lynne Brindley, DBE was appointed as a Non-Executive Member of the Ofcom Board on 1 September 2011. She is a council member of the Arts and Humanities Research Council, a Board Member of the Creative Industries Knowledge Transfer Network, a member of the Council of City University and on the Court of the Goldsmiths' Company. She is Chairman of Ofcom's Nations Committee and a Member of the Remuneration and Nominations Committees.

**TIM GARDAM**

Tim Gardam has been a Non-Executive Member of the Ofcom Board since January 2008. He has been the Principal of St Anne's College, Oxford since 2004. He is a member of the University Council, Chairman of The Conference of Colleges and Chairman of the Reuters Institute for the Study of Journalism at the University. He is the Chairman of Ofcom's Content Board, Chairman of the Broadcast Licensing Committee and Election Committee and a Member of the Remuneration and Nominations Committees.

**MIKE MCTIGHE**

Mike McTighe has been a Non-Executive Member of the Ofcom Board since September 2007. He is Chairman of Volex Group plc and WYG plc, and senior independent director of Betfair Group plc. He is the Chairman of Ofcom's Risk and Audit Committee and a Member of the Remuneration and Nominations Committees. Mike took leave of absence from Ofcom from January to May 2013.

**LORD BLACKWELL**

Norman Blackwell has been a Non-Executive Member of the Ofcom Board since September 2009. He is Chairman of the Board at Interserve plc, and a member of the Board at Halma plc, Lloyds Banking Group plc and the Centre for Policy Studies. He is a Member of Ofcom's Content Board, Remuneration and Nominations Committees.

**STUART MCINTOSH**

Stuart McIntosh joined Ofcom as Competition Partner in January 2008 and was appointed to the Board in July 2008. Prior to joining Ofcom, he was a Strategy partner in IBM's communications practice in the US, having begun his career as an economist in the UK's Government Economic Service.

**JILL AINSCOUGH**

Jill Ainscough joined Ofcom in August 2007 as Chief Operating Officer and was appointed to the Board in October 2010. Prior to joining Ofcom she was Managing Director of Easynet. She was, from 2007 to April 2013, on the Board of Sport England.

## Leadership

The Ofcom Board leads the organisation, with a shared commitment to the mission and values described on page 41.

Its core activities include:

- setting the overall strategy for Ofcom;
- acting as the ultimate decision-making authority;
- obtaining assurance that material risks to Ofcom are identified and appropriate systems of risk management and control exist to mitigate such risks;
- defining Ofcom's appetite for risk; and
- Board and executive management succession.

In the year under review, the Board provided the overall strategic direction in the setting of Ofcom's priorities in its Annual Plan. The Board continued to oversee Ofcom's overall work for the benefit of citizens and consumers and gave approval to, or guidance on, a number of specific policy decisions and activities, including overseeing Ofcom's role in the London 2012 Olympic Games and Paralympic Games and arrangements for the auction of the 800 MHz and 2.6 GHz spectrum bands.

More detail about the major priorities that the Ofcom Board oversaw during the year is set out on pages 12 to 14.

The Ofcom Board is led by the Chairman who manages the Board to ensure that:

- Ofcom has appropriate objectives and an effective strategy;
- there is a structure in place to allow the effective contribution of all Members, and of Non-Executive Members in particular;
- the Chief Executive and other executives are able to implement the strategy;
- the Board Committees are properly established, composed and operated;
- there are procedures in place to inform the Board of performance against objectives; and
- Ofcom is operating in accordance with the highest standards of corporate governance.

Ofcom continues to demonstrate strong leadership in the management of risk through the work of the Risk and Audit Committee, overseen by the Board. Ofcom maintains a risk register for all of its work, which is reviewed regularly, and the Executive Committee, the Operations Board and the Policy Executive are responsible for managing and mitigating (where possible and appropriate) all risks arising from specific operational, policy and regulatory developments.

## The Ofcom Board

The Chairman and Non-Executive Members of the Ofcom Board are appointed by the Secretary of State for Culture, Media and Sport, for periods of between three and five years. Executive Members of the Board are appointed by the Chairman and all of the Non-Executive Members, with the Chief Executive's appointment requiring approval by the Secretary of State for Culture, Media and Sport. Members' duties and responsibilities are set out in a Members' Code of Conduct, and a Register of Members' Interests is maintained. Both are available on the Ofcom website. For the purposes of adopting the key principles of the UK Corporate Governance Code:

- The Board considers all of the Non-Executive Members to be independent of management and free of any business or other relationship which could materially interfere with the exercising of their judgement. However, should special circumstances arise, appropriate action is taken to ensure that independence is maintained;
- The Board believes that the Members have, between them, a wide range of experience which ensures an effective Board to lead and control Ofcom;
- The Non-Executive Members comprise a majority of the Board. The Deputy Chairman is regarded as being the senior Non-Executive Member for the purposes of the UK Corporate Governance Code; and
- The Board meets at regular intervals during the year. The role of executive management is to implement Board policies. The work of both the Board and Executive is informed by the contributions of a number of advisory bodies.



Figure 9: Ofcom's Board and Committees

### Board Committees

In the exercising of its powers under the Office of Communications Act, the Board delegates certain of its responsibilities to the Executives within Ofcom and certain responsibilities to Board Committees with clearly defined authority and terms of reference (see Figure 9). The activities and main functions of these principal committees are described below. Ofcom has a number of other specialist committees with a governance role or an advisory role to the Board, described in the Annex on pages 100 to 102.

### The Nominations Committee

The Nominations Committee comprises all the Non-Executive Members of the Ofcom Board. The Committee works with the Department for Culture, Media and Sport (DCMS) on the process for selecting Non-Executive Members for the Ofcom Board and makes recommendations on Executive Member appointments. It did not meet during 2012/13.

### The Remuneration Committee

The Remuneration Committee consists of all the Non-Executive Members of the Ofcom Board. The Chief Executive, the Chief Operating Officer and the HR Director attend meetings at the invitation of the Remuneration Committee.

The Committee advises Ofcom on the remuneration and terms and conditions of service for the Chief Executive, other Executive Members of the Board and Members of the Executive Committee. The Committee also advises Ofcom on the terms and conditions of the part-time Members of the Content Board, the Communications Consumer Panel, the Advisory Committee on Older and Disabled People, the four National Advisory Committees and other Non-Executive Members of other bodies in Ofcom's governance structure.

The Committee oversees the process for determining the terms and conditions of all other Ofcom colleagues. The Committee also oversees and decides upon issues relating to the pension arrangements established by Ofcom for all Ofcom colleagues.

The remuneration of Non-Executive Members of the Ofcom Board is determined by the Secretary of State for Culture, Media and Sport. Should it be necessary for Ofcom to consider any aspect of Non-Executive Member remuneration, a Non-Executive Member Remuneration Committee has been established, consisting of the Finance Director, the HR Director and the Corporation Secretary, which will meet and report directly to the Secretary of State as appropriate. Consequently, no Board Member is involved in the setting of his or her own remuneration.

### Risk and Audit Committee

The Risk and Audit Committee comprises three Non-Executive Members of the Ofcom Board, and an independent external Non-Executive Member, Simone Pennie. Simone is a qualified chartered accountant and satisfies the requirement under the UK Corporate Governance Code that one Member of the Committee has relevant financial experience. The Chief Executive, the Chief Operating Officer and the Finance Director are invited to attend Committee meetings, as are the internal and external auditors.

The Chairman of the Risk and Audit Committee reports the outcome of Committee meetings to the Ofcom Board. The Committee's functions are described in its terms of reference, available on the Ofcom website.

The internal audit function is outsourced by Ofcom to KPMG. The Risk and Audit Committee believes it is appropriate for the internal auditors, in addition, to provide Ofcom with specific advice on internal risks. The provision of other services by KPMG to Ofcom is decided on a case-by-case basis. The external audit function is carried out by the National Audit Office on behalf of the Comptroller and Auditor General.

### Executive Committees

The Executive Committee is the senior executive team responsible for overseeing the management of Ofcom. Its core focus is on setting direction for the organisation, financial and administrative decision-making, and monitoring. The Finance Director, Human Resources Director and Corporation Secretary and other senior executives attend by invitation. Its policy-making responsibilities are limited to management policy.

The Chief Executive also chairs a weekly meeting of the Policy Executive, which consists of the members of the Executive Committee and other senior executives by invitation. Policy Executive is designed to be an internal forum for senior

### Ofcom Board and Board Committees

	Ofcom Board	Remuneration Committee	Risk and Audit Committee
Number of meetings	12	5	5
<b>Role and attendance</b>			
Colette Bowe	Chairman, 12	Member, 5	Member, 5
Ed Richards <sup>4</sup>	Chief Executive, 12		
Dame Patricia Hodgson DBE <sup>1</sup>	Deputy Chairman, 12	Chairman, 5	Member/Chairman 3/2
Lord Blackwell	Member, 12	Member, 5	
Dame Lynne Brindley DBE	Member, 12	Member, 5	
Tim Gardam	Member, 12	Member, 4	
Mike McTighe <sup>1</sup>	Member, 7	Member, 2	Chairman, 3
Jill Ainscough <sup>4</sup>	Member, 8		
Stuart McIntosh <sup>4</sup>	Member, 12		
Peter Teague <sup>2</sup>			Member, 2
Simone Pennie <sup>3</sup>			Member, 3

<sup>1</sup> Mike McTighe took leave of absence from the Board and Committees during 2012/13. During his absence, Dame Patricia Hodgson has chaired the Risk and Audit Committee.

<sup>2</sup> Peter Teague retired from the Risk and Audit Committee on 31 October 2012.

<sup>3</sup> Simone Pennie was appointed with effect from 1 September 2012.

<sup>4</sup> Executive Members.

executives to scrutinise and oversee the internal development of Ofcom's policy agenda. The Operations Board meets fortnightly and is chaired by the Chief Operating Officer. It has senior representatives from all parts of Ofcom, and deals with all operational matters for the organisation. It reports to the Executive Committee monthly.

## Effectiveness

The Board meets formally at least monthly; it is provided with regular strategic updates, briefings on the markets Ofcom regulates, the activities of key stakeholders, and reports on Ofcom's operational and policy activities. In addition, all Members have access to the Secretary to the Corporation to assist them with the provision of information and the making of arrangements for informal meetings with executives within Ofcom to gain greater knowledge of specific issues.

An internal review of Board effectiveness was carried out in spring 2013. It concluded that the Board contains a good mix of skills and experience and provides effective governance of Ofcom.

The performance of individual Board members is assessed by the Chairman and each member receives a performance review annually.

## Accountability

Ofcom's Annual Report is sent to DCMS, which lays copies of it before each House of Parliament. The Board is responsible for ensuring that proper records are maintained, which disclose with reasonable accuracy at any time the financial position of Ofcom and enable it to ensure that the Statement of Accounts complies with the Communications Act 2003. In addition, the Board is responsible for safeguarding Ofcom's assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Compliance with the Corporate Governance Code

Ofcom is not subject to the UK Corporate Governance Code published by the Financial Reporting Council.

However, its principles provide a useful benchmark for all bodies wishing to make a statement about their corporate governance performance. To this end, Ofcom will continue to adopt the principles of the Code where it is appropriate to do so. In this regard Ofcom has complied with the principles of the UK Corporate Governance Code during the period 1 April 2012 to 31 March 2013.

## Transparency

Ofcom continues to review its publication scheme and make a wider range of information readily accessible on its website. During the period under review, Ofcom received 476 requests for information under the Freedom of Information Act 2000 and, in keeping with the Act's purpose to foster a culture of openness, it provided all or part of the information requested in 84 per cent of cases.

### Executive Committee Members

Name	Role
Ed Richards (Chairman)	Chief Executive
Jill Ainscough	Chief Operating Officer
Stuart McIntosh	Group Director, Competition
H. Nwana <sup>1</sup>	Group Director, Spectrum Policy
Claudio Pollack	Group Director, Content, Consumer and External Affairs
Steve Unger	Group Director, Strategy, International, Technology and Economists
Polly Weitzman	General Counsel
Christopher Woolard <sup>2</sup>	Group Director, Content, International and Regulatory Development

<sup>1</sup> H. Nwana resigned from the committee with effect from 30 April 2013.

<sup>2</sup> Christopher Woolard resigned from Ofcom with effect from 31 December 2012.

Ofcom also received 22 requests for information under the Data Protection Act 1998 and provided the requested information in 89 per cent of cases. Information is only withheld if it is exempt from disclosure under legislation.

## Engagement

Ofcom's actions will affect people and organisations across the UK. As a result, it is very important that it takes decisions at the right time and in the right way. These decisions must be based on evidence and Ofcom needs to take into account, when making these decisions, the views of those who have an interest in the outcome.

Consultation plays an important part in obtaining this evidence. It allows those who could be affected by or concerned about a particular issue to give us their views before we decide on a course of action.

Consequently, Ofcom consults publicly on all its major strategic priorities before making decisions. More details about Ofcom's method of consultation and the consultations that took place during the year are set out on pages 38 and 39.

Ofcom also takes advice from all parts of its governance structure during consultations. Ofcom executives attend appropriate meetings to outline, and discuss projects that are either out for, or being considered for, consultation, and advice and challenge is welcomed.

The membership of the bodies that make up the governance structure has been designed to offer specific levels of expertise, so that Ofcom's policies and projects can be tested and challenged robustly before decisions are reached. This engagement is increasingly important in the devolved nations of the UK, where the role of the National Advisory Committees is immensely valuable in helping Ofcom take into account specific issues in its policy formulation and implementation.

Ofcom also engages with other national regulatory authorities, European institutions and global bodies, so that decisions taken in international fora are practical, proportionate and reflect the interests of citizens and consumers in the UK.

## The control framework

Ofcom's control framework underpins the governance structure and is designed to support the delivery of its statutory duties and the achievement of its objectives while safeguarding public funds. The control framework is built around three clear areas of responsibility:

- management and internal control;
- risk management; and
- independent assurance.

Each of these areas of responsibility is embedded across the organisation and they come together to provide the Executive and the Board with the assurance needed to manage the business effectively (see Figure 10).

The control framework is consistent with guidance on compliance with the 8th EU Company Law Directive provided by the Federation of European Risk Management Associations (FERMA).

## Challenges faced during 2012/13

2012/13 was a demanding year for Ofcom. In addition to delivering a number of planned, high profile projects which included the delivery of the Government's spectrum guarantee for the London 2012 Olympic Games and Paralympic Games, auctioning the 800 MHz and 2.6 GHz spectrum bands, accelerating spectrum clearance and the announcement of measures to safeguard the universal postal service, we also responded to a number of requests from Government which included providing advice on the measurement of media plurality, the submission of evidence to the Leveson Inquiry and input into the Government's Communications Review.

Ofcom has robust governance, internal control and risk management frameworks in place. However, we recognised that the scale and importance of some of the projects we were delivering during the year would benefit from additional layers of control and governance to ensure that we were able to effectively manage the increased levels of risk.

### London 2012 Olympic Games and Paralympic Games

From the outset, our approach to the governance and management of our work in respect of the London 2012 Olympic Games and Paralympic Games was informed by a very low tolerance for risk. The scale of our work was unprecedented, as described on page 19. In preparation for the Games we used over 70 separate events, including the Queen's Jubilee celebrations, as test events to validate our systems, processes and governance structures. Our project to meet the Government's spectrum guarantee operated under an internal Olympics Programme Board, which in turn reported to Ofcom's Operations Board.

Ofcom's main Board and the Risk and Audit Committee formed an integral part of the project's overall risk management and governance structure, which, in turn, was independently reviewed as part of the 2012/13 internal audit plan. Externally, both the London Organising Committee of the Olympic and Paralympic Games (LOCOG) and the UK Government were key stakeholders. We contributed to the project governance of these stakeholders, alongside LOCOG's other Technology Partners, and as part of the Government Olympic Executive (GOE) Programme Board.

As a result of the careful planning and technical work Ofcom successfully met all requirements for spectrum at and around the Games, and thereby fully delivered the UK Government's spectrum guarantee. During the Games any incidents were handled quickly and successfully, with no significant impact on the events.

### 800 MHz and 2.6 GHz Spectrum Auction

The project to auction the 800 MHz and 2.6 GHz spectrum bands formed part of the wider Spectrum Clearance and Awards Programme (SCAP).

Recognising the strategic importance and complex nature of the work, together with the requirement to manage a number of interdependent projects with multiple stakeholders, SCAP has implemented a comprehensive framework of governance and control. This framework was described in our 2011/12 Annual Report. However, the importance of the outcome of the auction for citizens and consumers, together with the commercial sensitivity of the project and our low tolerance for risk required additional governance and controls to be implemented. The section on page 54 describes the framework that was put in place for the auction to ensure a successful outcome.

Following the successful delivery of the London 2012 Olympic Games and Paralympic Games, Ofcom has continued to look for opportunities to enhance the performance of its Information Systems outsourcing contract with CGI (formerly Logica). In order to improve system performance and to mitigate any risks associated with the current service, an infrastructure investment programme has been initiated following the creation of an ICT User Forum. The purpose of the Forum is to gather feedback from colleagues and to help

prioritise the investment programme. Two further activities were launched during the year. A Demand Management Board, reporting to Ofcom's Operations Board, has been established to oversee the pipeline of future ICT requirements. Additionally, work commenced to review Ofcom's overall ICT strategy in advance of the consideration of a future operating model. Ofcom senior management continue to engage with CGI executives to ensure the operational stability of the ICT services and drive contractual compliance.

Despite this demanding programme of work and the associated enhancement of our governance and control frameworks, Ofcom continued to deliver on its commitment as part of the 2010 Spending Review, to reduce its operating budget by 28.2 per cent over the four-year period to 2014/15. In line with the annual planning round, the 2012/13 budget of £121.4m was set within the spending cap agreed with the Treasury and represented a real terms reduction of 6.1 per cent in the total cost of regulation year-on-year. In setting the budget we have achieved savings of 22.5 per cent and remain on track to achieve a 28.2 per cent reduction over the course of the 2010 Spending Review period. Disciplined project and programme management, together with regular oversight by the Board and the Executive regarding the ongoing programme to deliver the agreed savings and efficiencies, have ensured that the 2012/13 outturn was within the budget set. Discussions are under way with Government to agree a spending cap for 2015/16.

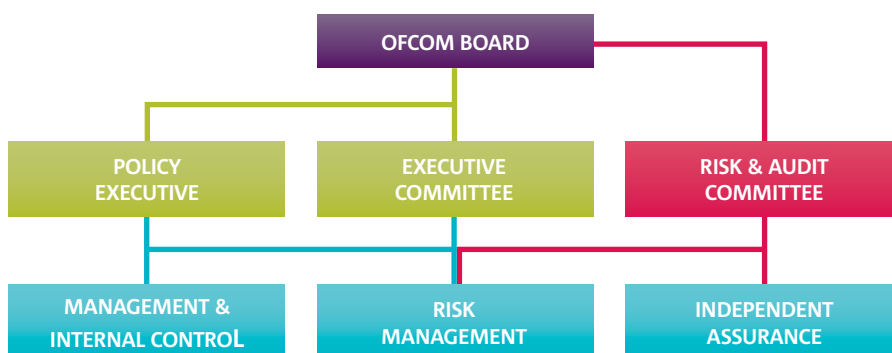


Figure 10: Ofcom Control Framework



## 800 MHz and 2.6 GHz Spectrum Auction Delivery

To ensure the appropriate level of oversight, the spectrum auction appeared on the Board’s agenda four times during the year. This was in addition to the regular updates that the Board receives on SCAP from the project team and as part of the Chief Executive’s Reports. Additionally, the Risk and Audit Committee considered arrangements for the auction on four separate occasions during 2012/13. This included a meeting convened in November 2012 specifically to review in detail the arrangements for the auction. A scheme of delegated authorities, which defined who was authorised to make decisions relating to the auction, was approved by the Board.

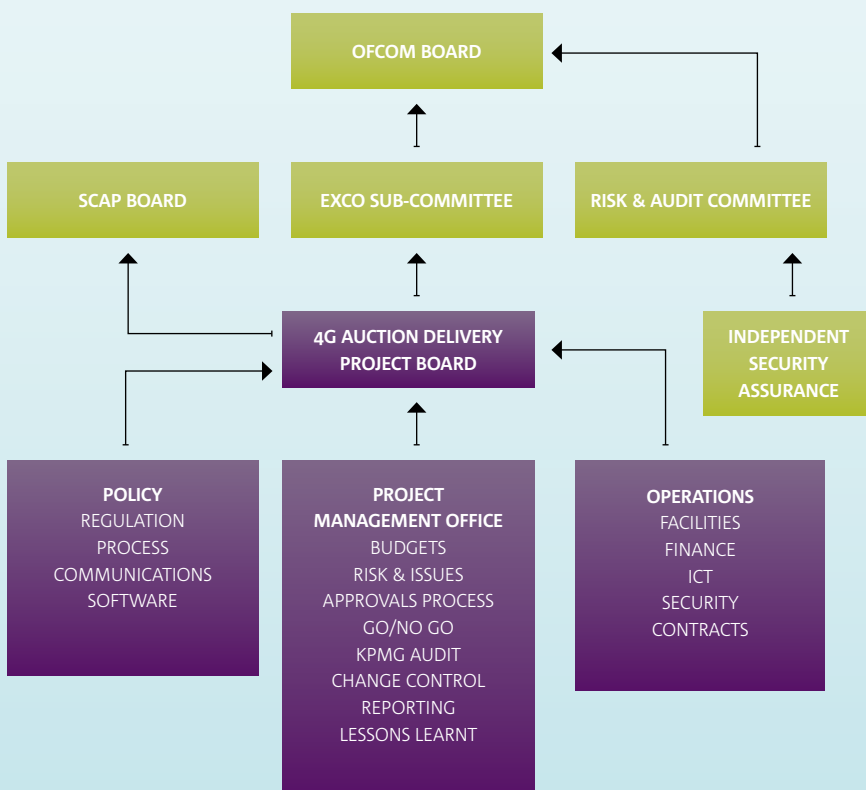
In order to provide appropriate governance in relation to the auction, the Auction Delivery Project Board was established and was chaired by Ofcom’s Chief Operating Officer and the Director of the Spectrum Policy Group (joint sponsors of the auction delivery project) and included representation from the legal team and each of the project workstreams. Additionally, an Executive Committee (ExCo) Sub-Committee was established to oversee final decisions. The Sub-Committee was chaired by Ofcom’s Chief Executive and included members of ExCo together with independent representation.

Providing appropriate assurance regarding the auction system’s ability to meet our requirements was a key element of the project. Principally, this was gained through:

- the auction system supplier’s experience (selected through a rigorous competitive tender exercise) in developing and delivering auction systems for other clients throughout the world;
- internal Ofcom review of the architecture, design and functionality of the software;
- an external testing programme which included independent, third-party validation;
- mock auctions for external stakeholders before the start of the auction;
- internal testing before the start of the auction; and
- a detailed review undertaken by Ofcom’s internal auditors.

In readiness for the auction, the NCC Group was commissioned by Ofcom’s Security Committee to undertake an independent review of the security measures (specifically around IT and physical security arrangements) implemented by Ofcom. Recommendations highlighted during the review were appropriately addressed.

Additionally, it was recognised that the value of the deposits made by bidders during the auction might significantly exceed Ofcom’s normal day-to-day financial activities. Consequently, we undertook a comprehensive review of our cash management processes to ensure that they, and the control environment that supported them, were appropriate given the scale of the auction. Further assurance was gained through internal audit’s review of the financial processes.



## Management and internal control

Responsibility for operating and monitoring the internal control system is delegated by the Ofcom Board through a hierarchy of Boards and Committees to Group Directors and senior managers. This scheme of delegation is outlined in the Financial Authorities Framework, which is reviewed periodically to ensure that it is consistent with the priorities of the organisation and its appetite for risk. Group Directors are asked to provide assurance that the system of internal controls is working effectively within their area of responsibility by completing an annual internal control assurance statement. Additionally, assurance is taken from the work carried out by specialist teams across the organisation including the Security Committee, the Health and Safety Committee, the Diversity and Equality Working Group and a group overseeing crisis management and business continuity planning.

By carrying out impact assessments (as required under the Communications Act), which evaluate the impact of any potential regulatory decision across the range of stakeholders, the consideration of risk sits at the very centre of our activities.

During the year, a number of initiatives have been started or implemented as part of the ongoing programme to review and enhance the existing internal control framework. These have included:

- specific governance arrangements and controls to manage the delivery of the 800 MHz and 2.6GHz spectrum auctions (see the section on page 54 for further information regarding the spectrum auctions);
- introduction of specific guidance regarding engagement with stakeholders during local TV licensing and the 800 MHz and 2.6 GHz spectrum auctions;
- continued focus on both the security and health & safety frameworks, further informed by recommendations made by internal audit during the year;
- further improvements to the planning and performance measurement process, which have included the introduction of enhanced planning tools and reporting to the Executive, the Board and the wider organisation;
- a comprehensive review of both the fixed asset and local asset registers; and
- work to implement further efficiencies in the broadcast licensing process.

## Risk management

Ofcom continues to demonstrate strong leadership of the management of risk through the work of the Board and its Committees. In providing support to the Board and the Executive Committee, the Operations Board and Policy Executive are responsible for providing leadership on the management of risks arising from specific operational and regulatory development.

To ensure that our risk management framework is effective and is aligned to the requirements of the organisation, KPMG complete an annual review of our risk management framework as part of our internal audit plan. The recommendations that emerge from the review form part of an ongoing programme to improve our risk management framework.

Ofcom's risk management policy and procedures clearly define its approach to risk management, its objectives and its processes, as well as identifying specific risk management roles, accountabilities and responsibilities across the organisation.

During the year, the Board completed an exercise to review the organisation's risk appetite statements. Following the publication of the draft 2013/14 Annual Plan and at the request of the Risk and Audit Committee, the Board has initiated a further review of the risk appetite statements, which will include additional statements for both health and safety and security.

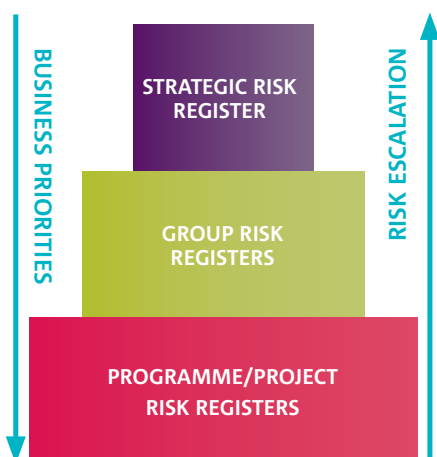
## Key Risks

Objective/Business Area	Risk	Mitigation
Simplifying charging for non-geographic telephone numbers (e.g. 084, 087, 09 and 118)	<p>Delays to the implementation of our proposals will undermine the benefits to consumers.</p> <p>Our proposals may be the subject of appeal or challenge.</p> <p>Ofcom and/or industry fail to implement changes to systems and processes in time.</p>	<p>We have put in place a rigorous implementation project management and governance structure.</p> <p>We are working closely with industry and other stakeholders to ensure all activities are delivered on time.</p>
Nuisance calls	<p>The volume of nuisance calls may continue to rise, causing significant annoyance and concern for consumers.</p> <p>Ofcom has powers to tackle only silent and abandoned calls.</p>	<p>Working with the Government, industry and other regulators, we have developed a five-point action plan to address nuisance calls.</p> <p>We have published a guide for consumers on how to reduce the number of nuisance calls they receive.</p> <p>We have a clear monitoring and enforcement programme aimed at reducing harm caused by abandoned and silent calls.</p>
Consumer switching	<p>A highly complex project, particularly in terms of evidence gathering and relationships with other Ofcom projects.</p> <p>Delays in securing positive outcomes may lead to consumer harm and undermine competitiveness.</p>	<p>We are focused on the statutory tests to ensure any intervention is objectively justified, proportionate, transparent and non-discriminatory.</p> <p>We are working closely with colleagues on other related projects.</p> <p>We are engaging with external stakeholders, including consumer representatives and industry at appropriate points in the project.</p>
Rapid change in the sectors regulated by Ofcom	<p>The sectors regulated by Ofcom are characterised by rapid change, making it challenging to develop plans to anticipate significant activities or events which may require Ofcom's involvement.</p> <p>In the current environment, additional unplanned work may result in the re-prioritisation of ongoing and planned activities, which could lead to delays in delivering benefits for consumers and citizens.</p>	<p>We seek to maintain breadth of expertise and scope for flexibility in project teams so that resources can be adapted or redeployed at short notice if necessary.</p> <p>Ofcom's Executive Committee is responsible for prioritising projects and adjusting work plans as required.</p> <p>Ofcom's Annual Plan, which outlines its strategic priorities, is subject to public consultation each year.</p>
Ability to regulate in an efficient and timely manner	<p>Increasing volume of appeals and litigation may result in potential delays to the implementation of regulatory change and may result in significant additional cost.</p>	<p>We make sure that our decisions are evidence-based and robust. We also carry out impact assessments to ensure that our decisions are made in the interests of citizens and consumers.</p> <p>We engage with stakeholders throughout our consultation processes to ensure we understand their views and can give them due consideration.</p>
Public sector spectrum release	<p>An ambitious and complex programme of spectrum release involving multiple government departments which may result in unmanaged interference or stakeholder issues.</p>	<p>We are working with stakeholders to ensure appropriate governance is in place.</p> <p>Early scoping of coexistence issues requiring mitigation.</p>

Drawing on the lessons learned from the spectrum auctions, work is under way to embed the consideration of risk appetite into the launch process for key projects.

Ofcom's strategic risk register is reviewed monthly by the Board and the Executive Committee and quarterly by the Risk and Audit Committee. Group-level risks are reviewed by the Group Director, their senior management teams and the Risk and Insurance Manager on a monthly cycle and escalated onto the Strategic Risk Register where appropriate. Senior managers are responsible for ensuring that colleagues have the appropriate skill levels to identify, assess and manage risk in line with Ofcom's policy to embed and support a culture of well-managed risk. In support of senior managers' role in championing the risk process, the Risk and Insurance Manager, together with a team of Group Portfolio Managers, work across all areas of the organisation to promote and integrate the risk management process and to support and inform colleagues.

Figure 11: Ofcom Risk Hierarchy



### Independent assurance

Ofcom outsources its internal audit function to KPMG. KPMG carries out its work in line with the Annual Audit Plan, which is informed by an assessment of the strategic risk register, discussions with management and the National Audit Office and an ongoing consideration of the environment in which Ofcom operates. The Plan is approved by the Risk and Audit Committee. During 2012/13, a total of 11 internal audits were completed, including reviews of the 800 MHz and 2.6 GHz spectrum auctions, ICT health check, the health and safety and security frameworks, procurement strategy, tariff setting and the expenses policy.

Where appropriate, Ofcom has sought independent, third-party assurance for key business processes. For example, as part of the Spectrum Clearance and Awards Programme, Deloitte and BDO have been contracted to provide assurance on the processes followed by third parties involved in the spectrum clearance process. Additionally, independent assurance was secured from the NCC Group as part of the preparation and delivery of the spectrum auction (see page 54).

### Protected personal data incidents

During 2012/13 no protected personal data-related incidents were reported to the Information Commissioner's Office.

### Statement of Accountable Officer

As Chief Executive and Accountable Officer I have overall responsibility for reviewing the effectiveness of the system of internal control. Group Directors have responsibility for the development and maintenance of the internal control framework.

This framework informs the work of Internal Audit and comments made by external auditors in their management letter and other reports.

The Board has maintained strategic oversight and review of internal control and risk management arrangements through regular reports by directors on their areas of responsibility and through specific reports for discussion at Risk and Audit Committee and Board meetings.

The Risk and Audit Committee, which meets on a quarterly basis has considered:

- Individual internal audit reports and management responses;
- The Internal Auditor's annual report and opinion on the adequacy of our internal control system;
- National Audit Office reports and recommendations; and
- Regular reports on Ofcom's strategic risk register, including the identification of risks to the organisation's system of internal control and information about the controls that have been put in place to mitigate these risks

To my knowledge, and based on the advice I have received from those managers with designated responsibilities for managing risks and the risk management system, I am not aware of any significant internal control findings for 2012/13.

**Ed Richards, Chief Executive and Accountable Officer**

18 June 2013

# Statement of responsibilities

## The Board's responsibilities

Under the terms of the Office of Communications Act 2002, the Board is required to prepare a Statement of Accounts for each financial year. This conforms with the Accounts Direction issued by the Secretaries of State for Business, Innovation and Skills and for Culture, Media and Sport. The Board is also responsible for sending a copy of the Statement of Accounts to the Comptroller and Auditor General.

This Statement of Accounts is prepared, in so far as applicable, in accordance with the Companies Act 2006 and the United Kingdom's generally accepted accounting standards, and on an accruals basis. It must give a true and fair view of the state of affairs of Ofcom as at the end of the financial year and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

The Board confirms that in preparing this Statement of Accounts it has observed the relevant accounting and disclosure requirements, applied suitable accounting policies on a consistent basis, made judgements and estimates on a reasonable basis, followed applicable accounting standards and prepared the statement of accounts on a going-concern basis.

The Board is responsible for ensuring that proper records are maintained, which disclose with reasonable accuracy at any time the financial position of Ofcom and enable it to ensure that the Statement of Accounts complies with the Companies Act 2006. In addition, the Board is responsible for safeguarding Ofcom's assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Chief Executive's responsibilities

The Chief Executive is appointed by the Board, which delegates responsibility to him for the day-to-day management of Ofcom. The Secretaries of State for Business, Innovation and Skills and for Culture, Media and Sport have designated the Chief Executive as Ofcom's Accountable Officer. He is not formally appointed as the Accounting Officer in Government terms; however, the appointment carries with it duties of responsibility in respect of regularity, propriety, value for money and good financial management, and the safeguarding of public funds.

The Chief Executive has specific responsibilities for ensuring compliance with the terms of the Financial Memorandum issued by the Secretaries of State. He must also ensure that proper accounting records are maintained and must sign the accounts.

As a Member of the Board, the Chief Executive has to ensure that his accountability responsibilities do not conflict with his responsibilities as a Board Member. The Chief Executive may be called upon by the Committee of Public Accounts and other Parliamentary committees to give evidence on the discharge of his duties.

# Remuneration report

In preparing the remuneration report, and establishing its remuneration policy, the Board has given consideration to, and adopts the provisions of, the UK Corporate Governance Code, where appropriate and applicable and for compliance with the Government Financial Reporting Manual. Ofcom is not required to comply with the Directors' Remuneration Report Regulations 2002 but has prepared this report to be compliant so far as is practicable and appropriate.

## Constitution of the Remuneration Committee

The constitution of the Remuneration Committee is set out on pages 49 and 50.

## Advisers

Where necessary, the Remuneration Committee takes advice and/or obtains services from specialist external organisations.

The Committee also takes advice from Ofcom's HR Director. The Chief Executive and the Chief Operating Officer are normally invited by the Remuneration Committee to attend meetings of the Committee. No individual is present for any discussion about his or her own remuneration.

## General policy

In setting Ofcom's remuneration policy the Remuneration Committee believes that Ofcom should, within the constraints of being a public body, provide rewards which will attract and retain the high-calibre management and specialists necessary to enable Ofcom to fulfil its statutory remit and responsibilities. The overall policy approach is not expected to change in the coming year.

## Components of remuneration

The main components of Executive Members' and Group Directors' remuneration are:

### Salary and flexible benefits

The basic salary for each Executive Member and Group Director is determined by taking into account each colleague's responsibilities, performance and experience, together with market trends. In addition, a flexible benefits allowance is made available to each Executive Member and Group Director from which the individual concerned may purchase certain benefits. All basic salaries are reviewed annually with effect from 1 July each year.

### Standard benefits

Each Executive Member and Group Director receives certain standard benefits: specifically, life assurance, group income protection and the ability to undertake an annual health check.

The total value of group income protection, life assurance and annual health checks has not been disclosed in the remuneration schedules because it is not treated by HM Revenue & Customs as a taxable emolument.

### Performance-related payments

Each Executive Member and Group Director participates in a performance bonus scheme, which is calculated as a percentage of salary based on the individual's performance, up to a maximum of 20 per cent of salary, depending upon the individual concerned. This allows Ofcom to recognise the contribution of high performers in any year without raising base salary levels. No element of a performance bonus is pensionable. Performance bonuses noted against individuals for the review period 1 April 2012 to 31 March 2013 have been approved by the Remuneration Committee and accrued but not paid as at the year end.

### Pension arrangements

Under Ofcom's pension arrangements, each Executive Member and Group Director is provided with an allowance, determined as a percentage of base salary, which the individual can take as extra salary or invest in a pension scheme of their choice.

No Non-Executive Member received a pension benefit from Ofcom during the year under review.

## Guidance to the remuneration schedules

Details of remuneration received for the Board, the Content Board and the Executive Committee, which have been audited by the National Audit Office, are set out in the following tables and notes.

These schedules refer to remuneration during the financial year. The schedule reflects remuneration for that part of the year during which individuals were either providing services to, or were members of the Board or the Content Board or members of the Executive Committee. Those individuals with the note ‘+’ against their name in the schedules were in their roles for only part of 2011/12 or 2012/13. Where individuals are members of more than one Board/ Committee (as set out on pages 50 and 51) they appear only once in the remuneration schedules, and all the Executive Members are listed under the Executive Committee. The numbered points against the names of individuals refer to the notes on pages 61 and 62.

As a result of the various changes in membership in 2011/12 and 2012/13, an annualised figure is given below each table, to provide a clearer comparison of total costs.

### Ofcom Non-Executive Board Member remuneration 2012/13

Name	Guidance Note Reference	Fees 12/13 £	Fees 11/12 £
Norman Blackwell	1	42,519	42,519
Colette Bowe	1	180,000	180,000
Dame Lynne Brindley DBE +	1	42,519	24,803
Tim Gardam	1	42,519	42,519
Dame Patricia Hodgson DBE +	1	70,000	38,760
Mike McTighe	1, 2	31,889	42,519
		<b>409,446</b>	<b>371,120</b>

Annualised costs were £420,076 for 2012/13 and £420,076 for 2011/12.

### Ofcom Non-Executive Content Board Member remuneration 2012/13

Name	Guidance Note Reference	Fees 12/13 £	Additional Fees <sup>3</sup> £	Total Fees 12/13 £	Fees 11/12 £
David Levy +	1	10,800	–	10,800	9,900
Anthony Lilley OBE	1	10,800	–	10,800	10,800
Iseabail Mactaggart +	1, 3	10,800	1,800	12,600	9,900
Glyn Mathias +	1, 3	10,800	10,500	21,300	18,300
Dr Paul Moore	1, 3	10,800	600	11,400	10,800
Joyce Taylor	1	15,900	–	15,900	15,900
Janey Walker +	1, 3	10,800	7,800	18,600	9,900
		<b>80,700</b>	<b>20,700</b>	<b>101,400</b>	<b>85,500</b>

Annualised costs for the Content Board were £80,700 for 2012/13 and £80,700 for 2011/12. This excludes additional fees paid for work on the Broadcast Licensing Committee.

## Ofcom Executive Committee and Executive Content Board Member remuneration 2012/13

Name	Guidance Note Reference	Salary 12/13 £	Pension entitlement/ allowance 12/13 £	Flexible benefits allowance 12/13 £	Benefits in kind 12/13 £	Performance Bonus 12/13 £	Total Remuneration 12/13 £	Total Remuneration 11/12 £
Jill Ainscough	4	195,909	29,386	15,000	1,922	25,000	267,217	249,183
Stuart McIntosh	4	236,165	35,425	15,000	1,922	25,000	313,512	299,964
H Nwana	4	191,250	28,688	15,000	1,922	15,000	251,860	243,765
Claudio Pollack	4, 7	164,167	24,625	15,000	1,922	15,000	220,714	202,059
Ed Richards	4, 5, 8	276,066	55,213	19,956	1,922	25,000	378,157	365,773
Steve Unger	4, 7	168,333	25,250	15,000	1,922	15,000	225,505	214,709
Polly Weitzman	4	211,875	31,781	15,000	1,922	25,000	285,578	271,505
Christopher Woolard +	4, 6	135,062	27,013	11,250	1,424	–	174,748	239,634
		<b>1,578,827</b>	<b>257,381</b>	<b>121,206</b>	<b>14,881</b>	<b>145,000</b>	<b>2,117,294</b>	<b>2,086,592</b>

Annualised costs were £1,942,546 for 2012/13 and £2,086,592 for 2011/12.

## Notes to the remuneration tables

- The fees for all the Non-Executive Members of the Ofcom Board are fixed in agreement with DCMS for the duration of their appointment. The fees shown represent the full year under review. The basic fee of the Non-Executives of the Ofcom Board (with the exception of the Chairman and the Deputy Chairman) has been £42,519 per annum since 1 April 2008. The fees for the Non-Executive Members of the Content Board are fixed by the Ofcom Board. The fees shown represent a full year or, where appropriate, part of the year, if the relevant Non-Executive Member joined or retired from the Content Board during the period under review. The basic fee of the Content Board Members is £10,800
- per annum (the exception being the fee paid to Joyce Taylor of £15,900 per annum to reflect her additional work and responsibility for standards work). The Non-Executive Members of the Ofcom Board and the Content Board Members received no additional remuneration from Ofcom beyond their fees (save only for those sums referred to in note 3 below), other than the entitlement for the Non-Executive Members of the Ofcom Board only, to the provision of IT equipment for home working. Not all Non-Executive Members of the Ofcom Board took up the entitlement during the period under review.
- The fees for Mike McTighe reflect the fact that he took a leave of absence from the Ofcom Board during the period 2012/13 and received no fees during that absence.
- Glyn Mathias, Janey Walker, Paul Moore and Iseabail MacTaggart all received additional fees for the extra time they provided to Ofcom (over and above their contracted time commitment) as part of the local TV licensing process, where they each sat (for differing periods of time) on the Broadcast Licensing Committee.



1. Total annual remuneration shown for the Ofcom executives, who are all members of the Executive Committee, includes basic salary, performance bonus, a cash allowance for flexible benefits and a percentage of basic salary paid as a pension allowance. The 'benefits in kind' column reflects the cost to Ofcom of the provision of private medical insurance for each executive. Ed Richards, Stuart McIntosh and Jill Ainscough are Executive Members of the Ofcom Board and Christopher Woolard was Executive Member of the Content Board during the period.
2. In addition to the remuneration shown in the table, Ed Richards earned £45,000 in fees for services as a Non-Executive Director of Thames Water Utilities Ltd, which were paid direct to Ofcom. He did not retain any part of these fees.
3. Christopher Woolard left the organisation on 31 December 2012.
4. Following the departure of Christopher Woolard an internal reorganisation took place resulting in the responsibilities of Steve Unger and Claudio Pollack increasing; their remuneration shows a salary increase to reflect their increased roles.

1. Public sector organisations are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce. The remuneration of the highest paid director in Ofcom in the financial year 2012/13 was £322,945 (£311,780 in 2011/12). This was 6.11 times (6.08 times in 2011/12) the median remuneration of Ofcom's workforce which was £52,894 in 2012/13 (£51,238 in 2011/12). No employees received remuneration in excess of the highest-paid director. In 2012/13, remuneration ranged from £20,769 to £322,945 and in 2011/12 from £18,260 to £311,780. For comparison purposes, total remuneration includes base salary, overtime and other allowances, performance bonus, flexible benefits and benefits in kind. Total remuneration does not include any pension allowance, in line with the Treasury Financial Reporting Manual.

## Contract of employment

With the exception of the Chief Executive, who has a notice period of 12 months, no Executive Member of the Ofcom Board or other Ofcom colleague has a contract of employment containing a notice period exceeding nine months. The Remuneration Committee has considered the notice period and termination arrangements in the light of the UK Corporate Governance Code and believes them to be appropriate.

The Non-Executive Members are all on fixed-term appointments for a set time commitment to Ofcom of up to two days per week (with the exception of Colette Bowe and Patricia Hodgson who currently commit up to three days per week and two-and-a-half days per week respectively).

## Compensation from early termination

The arrangements for early termination of a contract of employment for an Executive Member of the Ofcom Board, Content Board or Group Director are decided by the Remuneration Committee and will be made in accordance with the contract of employment of the relevant Executive Member or Group Director. Each contract of employment provides for a payment in lieu of notice on early termination at Ofcom's discretion.

Non-Executive Members have no entitlement to compensation in the event of early termination.

## Outside directorships

No Executive Member of the Ofcom Board may accept a non-executive appointment without the prior approval of the Board, to ensure that it does not give rise to conflicts of interest.

On behalf of Ofcom,

**Dame Patricia Hodgson**  
Chairman of the Remuneration Committee

18 June 2013

# Operating and Financial Review

In 2012/13, Ofcom delivered another year of significant budgetary savings, with an annual running cost of £109.9m (see table on page 81) against a budget of £121.4m. The savings were made as a consequence of successfully delivering our spectrum responsibilities for the London 2012 Olympic Games and Paralympic Games under budget, savings across staff costs through careful resource planning, the re-phasing of planned work on online copyright infringement, continuing our drive to further reduce travel and subsistence expenditure, and litigation costs that did not crystallise in this financial year.

Whilst the actual operating outturn for 2012/13 represents a minor increase (1.1%) in our year-on-year running costs, this outturn reflects the first full year of Ofcom's regulation of the postal service sector. During the year we also successfully concluded the auction for the 800 MHz and 2.6 GHz spectrum, following digital TV switchover, and our work in support of the London 2012 Olympic Games and Paralympic Games.

In addition, Ofcom invoiced and collected a total of £2,633.3m for the public purse in the year, from Wireless Telegraphy Act licensees, additional payments from broadcasting licensees and the levying of fines and penalties on stakeholders, as presented in the Section 400 Accounts.

This included licence fees of £2,368.3m from the auction of the 800 MHz and 2.6 GHz spectrum completed in March 2013, together with £2.3m of interest earned on bidder deposits held during the course of the auction.

For 2013/14, Ofcom has set a budget of £117.0m. This is a 6.5 per cent reduction in real terms on the 2012/13 budget and maintains our record of reducing Ofcom's budget in real terms on a like-for-like basis in each year of operation. In setting this budget we will have delivered a real terms savings of 26.7 per cent relative to 2010/11 and we remain on track to deliver the 28.2 per cent real terms savings required over the current Spending Review period to 2014/15.

## Financial framework

Under Paragraph 8(1) of the Schedule to the Office of Communications Act 2002, Ofcom is required to balance its expenditure with its income in each financial year.

Sections 38 and 347 of the Communications Act 2003 and Schedule 4 of the Postal Services Act 2011 also require Ofcom to raise income from each of the sectors it regulates, such that it covers the costs to be incurred by Ofcom in regulating that sector.

Ofcom must also apportion its common operating costs (those which do not relate directly to any one sector) in a proportionate manner across each of those sectors.

Ofcom raises its funds from the following sources:

- television broadcast licence fees;
- radio broadcast licence fees;
- administrative charges for electronic networks and services and the provision of broadcasting and associated facilities;
- administration charges for postal regulation;
- funding to cover Ofcom's operating costs for spectrum management, in the form of grant-in-aid from the Department for Culture, Media and Sport (DCMS);
- funding from DCMS to cover costs for clearing spectrum as part of the 800 MHz and 2.6 GHz project; and
- grant-in-aid funding to cover statutory functions and duties, which Ofcom must discharge, but for which there is no matching revenue stream.

Ofcom also receives rental income from sublet office space, bank interest in respect of bank balances, and income from services incidental to Ofcom's statutory duties.

### Financial management

A thorough understanding of our costs and financial management is critical to allow Ofcom to fulfil its strategic purposes, while meeting the challenging targets set as part of our expenditure review.

To achieve this, the finance team continues to focus on effective financial support of the various Groups across Ofcom. The team supports the organisation by obtaining value for money through commercial procurement processes; timely and accurate budgeting and forecasting of expenditure; prioritisation of resources and activities; comprehensive management reporting; risk management; ensuring compliance with key controls and transactional processing.

In preparation for the auction of the 800 MHz and 2.6GHz spectrum bands, and the significant increase in both expected value and volume of transactions, comprehensive reviews of the financial controls environment and cash management processes were undertaken. Controls and processes were subsequently enhanced, where necessary, to ensure their appropriateness for the scale of the auction.

During the course of the year, and in line with the Government's requirement for economic regulators to increase the transparency of their charges, Ofcom completed a significant project to review in considerable detail the costs relating to the management of the UK spectrum.

This is the single largest area of Ofcom's regulatory responsibilities and includes, for example, complex IT licensing systems. This analysis was only possible following the conclusion of a major review of our systems and costs, and by securing a new contract with a different information technology supplier.

Upon the completion of this work, which has been subject to rigorous management review and audit, it was clear that the proportion of IT costs relating to spectrum management is lower than assessed in previous years. This affects the way in which costs are apportioned to the different regulated sectors and, in particular, between commercial stakeholders and the taxpayer via grant-in-aid funding. This reduction in costs to the taxpayer needs to be balanced by recovering costs from regulated companies to a degree that is commensurate. Stakeholder fees and charges for 2013/14 appropriately reflect these changes.

### Operating income

Ofcom's total operating income in the Statement of Income and Expenditure separates out the income received relating to the Spectrum Clearance and Awards Programme (SCAP), as this is an additional duty outside our core operating budget.

Total income inclusive of SCAP for 2012/13 was £150.9m (2011/12: £158.5m). Significant changes from the previous year include:

- A decrease of £9.4m in spectrum clearance and award grant-in-aid claims. This was due to delivering projects more efficiently and effective implementation. These savings are complemented by a lower level of grant payment activity in the year, compared to the previous financial year, as the programme of work heads towards completion. The purpose of this programme is to clear the 800 MHz and 2.6 GHz spectrum bands for the competitive provision of next generation wireless broadband services across the UK. Funding primarily relates to third party grant applications. The auction of this spectrum, completed in March 2013, generated £2,368.3m of licence fees.
- An increase of £0.5m in spectrum management grant-in-aid, in support of our spectrum work for the London 2012 Olympic Games and Paralympic Games and the public sector spectrum release project.
- A decrease in regulatory charges of £3.1m in the broadcasting sector. This is primarily due to a reduction of costs incurred relating to our work on pay-TV and the sector's contribution to Ofcom's pension deficit repair payments.
- An increase in regulatory charges of £2.7m for the network and service operators. This is primarily due to the costs of a number of significant reviews carried out in 2012/13, including the narrowband and business connectivity market reviews.

- An increase of £0.4m for postal services regulation, as a consequence of 2012/13 being the first full year of Ofcom's new duties for regulating this sector. The income for 2011/12 reflected only six months' activity.
- An increase of £1.0m in grant-in-aid income to cover other statutory duties. This is largely due to further activities, such as consumer protection issues relating to nuisance and silent calls, requiring grant-in-aid funding. Additionally, the income reported in 2011/12 reflected the reimbursement by industry of the costs of postal services regulation integration.
- During the year, grant-in-aid funding of £0.2m was received from the Scottish Government to fund Ofcom's preparatory work to meet our responsibilities for spectrum management of the Glasgow 2014 Commonwealth Games.

### Operating expenditure

Ofcom's total operating expenditure in the Statement of Income and Expenditure separates out the costs of work relating to the Spectrum Clearance and Awards Programme (SCAP), as this is an additional duty outside our core operating budget. Expenditure for SCAP for 2012/13 is largely comprised of compensation grants of £33.1m (2011/12: £41.0m) being made to licensees to clear the 800 MHz and 2.6 GHz spectrum bands.

Other operating costs relating to Ofcom's core responsibilities were £51.7m, £2.0m higher than the prior year (2011/12: £49.7m).

The expenditure reported in 2011/12 benefits from a number of one-off credits totalling £3.8m. These and other significant variances to the previous year include:

- In 2011/12 we benefited from a one-off saving of £2.8m relating to a reduction in the rateable value of our principal office space. The 2012/13 expenditure reflects underlying costs.
- Our 2011/12 accounts included a one-off saving of £1.0m within outsourced services, relating to service credits following the transition of our outsourced Information, Communications and Technology (ICT) functions to a new provider.
- An increase in audience and consumer research of £0.9m reflecting the programme of work undertaken during 2012/13.

These variances were partially offset by:

- a decrease in professional fees of £1.2m, largely due to a year-on-year reduction in external legal fees associated with our 2011/12 work on pay-TV;
- a decrease in depreciation and amortisation of £1.5m, primarily in respect of capitalised information technology expenditure; and
- a decrease in administration and office expenses of £0.3m, which includes a reduction in printing charges.

Staff numbers (778) at the end of the financial year are consistent with the previous year. However, during the year, staff numbers temporarily increased in line with our plans to enable the successful delivery of Ofcom's spectrum management responsibilities for the London 2012 Olympic Games and Paralympic Games.

Following the successful completion of this work, and as a result of a subsequent reorganisation, staff costs also included restructuring costs of £1m.

2012/13 also saw the first full year of Ofcom's responsibility for the regulation of postal services. This includes the 48 roles that transferred from the previous regulator, Postcomm.

As a consequence of these factors, staff costs during the year increased by £6m from the previous financial year.

### Surplus / deficit for financial year

#### Funding surplus or deficit

The operating revenue required by Ofcom to fulfil its duties and deliver its programme of work for any financial year is calculated on the basis of Ofcom's statement of charging principles. This approach specifies the actual funds that need to be collected to discharge cash liabilities during the year. In line with the statement of charging principles, where, in the current year, there is an excess of income over expenditure, the surplus will be returned to the relevant stakeholders. Likewise, if in the current year, there is an excess of expenditure over income, this deficit will be collected from the relevant stakeholders.

The funding surplus for the year under review is set out in note 2 to the accounts on page 80 and totals £14.1m (2011/12: £6.1m).

### Accounting surplus or deficit

An accounting surplus is required to cover expenditure not reflected in the Statement of Income and Expenditure, including capital expenditure and deficit recovery payments necessary in respect of the two defined benefit pension plans.

An accounting deficit occurs where depreciation, amortisation and other non-cash transactions are greater than the income received to cover the cash costs of capital items and the defined benefit pension plans. In 2012/13, an accounting deficit occurred as a result of the relatively low value of capital expenditure and additional payments to the defined pension contributions when compared to the accounting cost of depreciation and amortisation.

The accounting deficit for the financial year after tax, recorded in the Statement of Income and Expenditure for the year under review, was £0.7m (2011/12: £6.8m surplus).

### Additional funds collected on behalf of HM Treasury

In 2012/13, Ofcom invoiced and collected £2,633.3m (2011/12: £279.5m) on behalf of HM Treasury. These funds have been passed on to the public purse. The revenue is collected from three sources:

- Wireless Telegraphy Act licence fees;
- additional payments from television and radio licensees; and
- financial penalties.

In March 2013, Ofcom successfully completed the auction of 800 MHz and 2.6 GHz spectrum, raising licence fees of £2,368.3m. A further £2.3m of interest was earned on deposits held during the auction, and this was passed to the public purse alongside the licence fees.

The auction met all of Ofcom's objectives, with up to five credible winning bidders able to launch 4G services, providing widespread coverage across the UK (reaching 98 per cent of the UK population indoors) and delivering significant further benefits for UK businesses and consumers alike.

Ofcom prepares a separate set of Financial Statements for the purposes of Section 400 of the Communications Act 2003. The above fees, payments and penalties are reported in these Financial Statements.

### 2013/14 tariffs

Ofcom is funded by a mixture of grant-in-aid and fees collected from the stakeholders we regulate. In 2013/14, the proportion of funding from the taxpayer via grant-in-aid will further reduce. This is in part due to Ofcom's 2013/14 budget reduction, but also because of the major review of our costs set out in the section on Financial Management, above.

As a result of this, Ofcom has determined that the proportion of IT costs associated with spectrum management should be reduced, which, in turn, will reduce the required level of grant-in-aid funding in 2013/14 and future years.

On 28 March 2013, Ofcom published the Tariff Tables for 2013/14, which were based on an estimated operating expenditure outturn for 2012/13 of £111.3m.

A total of £10.1m, the difference between the budget of £121.4m, and the estimated operating expenditure outturn, is already being passed back to stakeholders in 2013/14, as part of the regulatory tariffs, or to Government - and therefore the taxpayer - in reduced grant-in-aid.

The amount of £1.4m, being the difference between the actual operating outturn and the estimated operating outturn, used to set fees and charges for 2013/14, will be passed back to stakeholders through tariffs for 2014/15.

Ofcom's budget for 2013/14 is £117.0m, which includes capital expenditure and actual payments to pension schemes, but excludes depreciation and amortisation. This represents a 6.5 per cent real terms reduction in the total annual cost of regulation.

While the overall level of costs for Ofcom is continuing to fall, within these total costs there will be year-on-year movement between each regulated sector, and in the balance of costs and charges to industry and the taxpayer through grant-in-aid.

Specifically, sector fees and charges for 2013/14 will change by:

- a decrease of 19.5 per cent in real terms for spectrum management grant-in-aid;
- an average increase of 24.6 per cent in real terms for the network and services operators;
- an average decrease of 7.4 per cent in real terms for the TV sector;
- an average decrease of 28.1 per cent in real terms for the postal sector; and
- an average increase of 21.2 per cent in real terms for the radio sector.

Notwithstanding the increase in tariffs for some sectors in 2013/14, fees and charges remain materially lower in real terms than those set prior to the start of the savings programme in 2010/11. Figure 12 shows Ofcom funding over the past six years.

### Postal services regulation

Under the Postal Services Act 2011, the responsibility for the regulation of postal services transferred from Postcomm to Ofcom with effect from 1 October 2011, together with the remaining assets and liabilities of Postcomm.

This year was the first full year of postal regulation by Ofcom, and, with integration complete, the cost of regulation will continue to fall by a further 28.1 per cent in real terms in 2013/14.

In setting the fees for 2013/14, the costs of the regulation for the postal services sector will have fallen by in excess of 50 per cent since 2010/11, the last full year of regulation by Postcomm.

### Spectrum clearance and awards programme

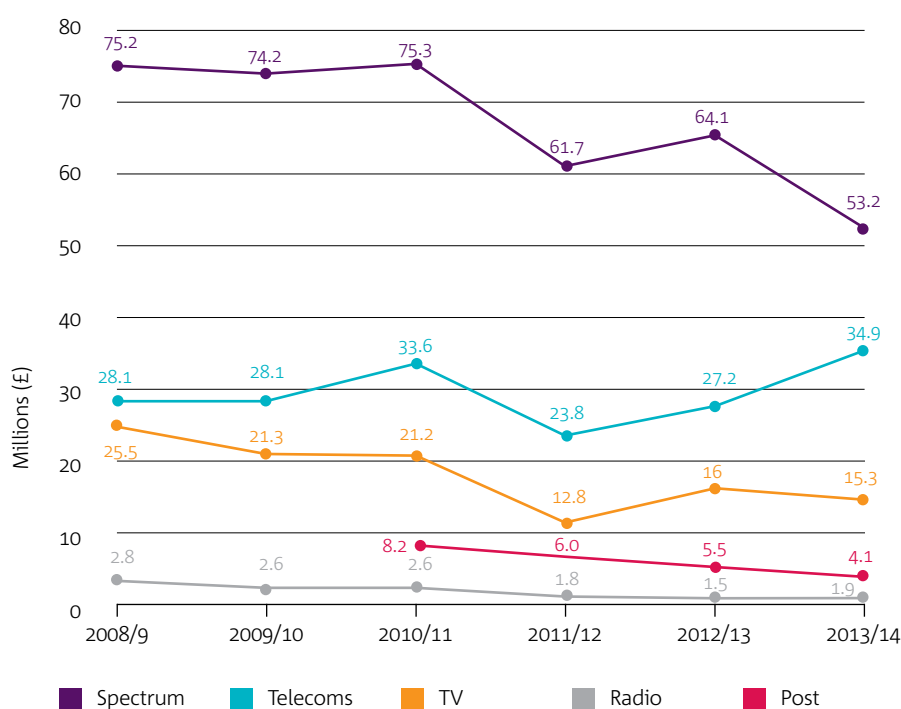
During 2012/13, further expenditure in support of the Spectrum Clearance and Awards Programme (SCAP) was required. The objectives of SCAP are to make the 800 MHz and 2.6 GHz spectrum bands available, by clearing existing users and holding an auction for new licences, to enable the competitive provision of next generation wireless broadband across the whole of the UK.

The auction of this spectrum was completed in March 2013 and clearance is expected to complete during 2013/14. The completion of this activity will allow the licence holders to launch 4G services in these spectrum bands.

Payments to existing users are made through compensation grants and funded by DCMS, as the budget holder, with approval from the Treasury. Payments are made by Ofcom to grant applicants and in 2012/13 these totalled £33.1m. SCAP incurred a further £5.6m of costs for research, legal fees, auction preparatory work, professional fees and staff costs. These were funded by DCMS as the budget holder.

SCAP represents a significant programme of work for Ofcom and includes co-ordination of multiple, complex projects to a challenging timescale. In order to provide transparency, costs relating to this programme of work have been separated out from Ofcom's core responsibilities in the financial statements.

Figure 12: Funding trends



### London 2012 Olympic Games and Paralympic Games

The 2012/13 accounts include the final year of Ofcom's programme of work to meet our spectrum management responsibilities for the London 2012 Olympic Games and Paralympic Games.

Ofcom was responsible for organising a full spectrum plan for the Games, for ensuring that frequencies were licensed to those who needed them, and for keeping those frequencies free from harmful interference. These responsibilities were successfully carried out in line with the two guarantees given by the UK Government to the International Olympic Committee (IOC) in support of London's bid for the Games. These guaranteed the allocation of the spectrum required for the organisation of the Games and the waiving of fees otherwise payable for that spectrum by members of the Olympic Family.

Our large-scale trial events began in the summer of 2010. Integrated cross-organisational test events continued throughout 2011/12 and up to Games time in 2012. Ofcom participated fully in these test events to fully test processes and ensure our readiness.

The costs of the programme were funded by DCMS through spectrum management grant-in-aid, and formed part of our core operating budget. The programme was successfully delivered within the budget agreed with the Government.

### Pensions

Ofcom provides pension benefits through a defined contribution pension allowance that is available to all colleagues. Ofcom colleagues are employed on terms with access to a stakeholder pension plan. The allowance may be used to contribute to the Ofcom defined contribution stakeholder pension plan.

Colleagues who joined Ofcom from legacy regulators were entitled to retain membership of one of two defined benefit (DB) pension plans. Both of these plans are closed to new entrants and benefits accruals ceased on 31 May 2011. From this time, all existing members were provided access to the Ofcom stakeholder plan. Notes 1K and 21 to the accounts provide further detail.

The latest actuarial valuations for both schemes as at 31 March 2012 highlighted a combined funding deficit of £5.2m. Since the finalisation of the actuarial valuations, a total of £1.5m in respect of deficit repair payments have been made to the DB plans in accordance with the respective recovery plans.

The valuations within the financial statements are calculated on the basis of IFRS, which takes a less prudent view of liabilities than the actuarial valuations, calculated in accordance with the Pensions Act 2004.

The 2012/13 financial statements show a surplus of £27.2m, in part because the pension liabilities under the financial statements are prepared on the basis that the liabilities are discounted in line with the yields on high-quality bonds which, under current market conditions, differ significantly from the approach used for determining Ofcom's contributions. This also reflects the significant movements in financial markets since the date of the actuarial valuations and the deficit repair payments made by Ofcom.

Ofcom has made cash payments to the Ofcom Defined Benefit Plan and the Ofcom (former ITC) Pension Plan on the basis of the actuarial valuations. Cash payments, rather than the amount charged to operating surplus as calculated under IAS19, are included in operating expenditure outturn used to calculate the tariffs charged to stakeholders each year.

During the year, payments to the two defined benefit plans amounted to £2.1m, £0.6m directly from Ofcom and £1.5m transferred from the feeder trust account. Additionally, a further £1.5m was transferred to the feeder trust account. The trust account can only be used to make payments into either of the two defined benefit pension plans.

As part of the ongoing activity to manage and mitigate risks of the plans, a further insurance-backed benefit buy-in in respect of pensioner members of one of the plans was completed via annuity purchase during the course of 2011/12.

# The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Office of Communications for the year ended 31 March 2013 under the Office of Communications Act 2002. These comprise the Statement of Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## Respective responsibilities of the Accountable Officer and auditor

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Office of Communications Act 2002. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate

to the Office of Communications' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Office of Communications; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Office of Communications' affairs as at 31 March 2013 and of its net operating deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Office of Communications Act 2002 and Secretaries of State directions issued thereunder.

## Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretaries of State directions made under the Office of Communications Act 2002; and
- the information given in Sections A,B and C and the Operating and Financial Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and that part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with the Treasury's guidance.

## Report

I have no observations to make on these financial statements.

## Amy C E Morse

Comptroller and Auditor General  
19 June 2013

National Audit Office  
157-197 Buckingham Palace Road  
Victoria, London, SW1W 9SP



# Statement of income and expenditure

For the year ended 31 March 2013

	Notes	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Income	3	111,110	109,296
Spectrum Clearance and Awards	3	39,795	49,229
<b>Operating expenditure</b>			
Staff costs	4	(60,574)	(54,357)
Other operating costs	6	(51,755)	(49,727)
Spectrum Clearance and Awards	4,6	(39,851)	(48,826)
<b>Operating (deficit) / surplus</b>		<b>(1,275)</b>	<b>5,615</b>
Vacant property income	7	544	150
Finance income		99	199
Finance costs	8	–	–
Other finance income	17,21	17	925
<b>(Deficit) / Surplus on ordinary activities for financial year before tax</b>		<b>(615)</b>	<b>6,889</b>
Taxation	9	(121)	(53)
<b>(Deficit) / Surplus for financial year after tax</b>		<b>(736)</b>	<b>6,836</b>

The accounting policies and notes on pages 74 to 99 form part of these financial statements.

# Statement of financial position

For the year ended 31 March 2013

	Notes	As at 31 March 2013 £'000	As at 31 March 2012 £'000
<b>Non-current assets</b>			
Property, plant and equipment	10	11,083	13,635
Intangible assets	11	4,523	7,379
Deferred tax asset	9	2,480	2,601
Trade and other receivables	13	335	1,116
Retirement benefit asset	21	26,038	31,329
<b>Total non-current assets</b>		<b>44,459</b>	<b>56,060</b>
<b>Current assets</b>			
Trade and other receivables	12	9,687	8,944
Cash and cash equivalents	14	23,627	13,677
<b>Total current assets</b>		<b>33,314</b>	<b>22,621</b>
<b>Total assets</b>		<b>77,773</b>	<b>78,681</b>
<b>Current liabilities</b>			
Trade and other payables	15	33,612	23,324
Provisions for liabilities and charges	17	1,328	499
<b>Total current liabilities</b>		<b>34,940</b>	<b>23,823</b>
<b>Non-current liabilities</b>			
Trade and other payables – amounts falling due after more than one year	16	6,416	7,610
Provisions for liabilities and charges	17	842	3,392
<b>Total non-current liabilities</b>		<b>7,258</b>	<b>11,002</b>
<b>Total liabilities</b>		<b>42,198</b>	<b>34,825</b>
<b>Assets less liabilities</b>		<b>35,575</b>	<b>43,856</b>
<b>Equity</b>			
Reserves		35,575	43,856
<b>Total equity</b>		<b>35,575</b>	<b>43,856</b>

The accounting policies and notes on pages 74 to 99 form part of these financial statements. These financial statements were approved by the Board on 18 June 2013.

Colette Bowe  
Chairman

Ed Richards  
Chief Executive

# Statement of changes in equity

For the year ended 31 March 2013

	Notes	Reserve £'000
<b>Balance as at 1 April 2011</b>		<b>37,581</b>
<b>Changes in equity for 2011/12</b>		
Actual return less expected return on plan assets	21	2,360
Experience gains / (losses) on pension scheme liabilities	21	(2,879)
Changes in assumptions underlying the present value of pension scheme liabilities	21	(4,686)
Decrease in minimum funding requirement liability	21	4,640
Actuarial adjustment to Postcomm unfunded pension liability		167
Postcomm transfer as at 30 Sep 2011		(163)
Surplus for year		6,836
<b>Total recognised income and expense for 2011/12</b>		<b>6,275</b>
<b>Balance as at 31 March 2012</b>		<b>43,856</b>
<b>Changes in equity for 2012/13</b>		
Actual return less expected return on plan assets	21	24,730
Experience gains / (losses) on pension scheme liabilities	21	(1,254)
Changes in assumptions underlying the present value of pension scheme liabilities	21	(32,331)
Decrease in minimum funding requirement liability	21	1,310
Deficit for year		(736)
<b>Total recognised income and expense for 2012/13</b>		<b>(8,281)</b>
<b>Balance as at 31 March 2013</b>		<b>35,575</b>

Further details on pensions are found in Note 21.

The accounting policies and notes on pages 74 to 99 form part of these financial statements.

# Statement of cash flows

For the year ended 31 March 2013

	Notes	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
<b>Cash flows from operating activities</b>			
Operating (deficit)/surplus		(1,275)	5,615
Postcomm transfer as at 30 Sep 2011 and actuarial pension adjustment		–	4
Adjustments for non-cash transactions			
Amortisation	11	4,041	5,085
Depreciation	10	3,277	3,693
Loss on disposal of property, plant and equipment	6	13	136
Decrease/(Increase) in trade and other receivables	12,13	38	(571)
Increase/(Decrease) in trade and other payables	15,16	9,094	(13,876)
Decrease in provisions	17	(1,276)	(675)
Increase in pension assets	21	(2,139)	(10,499)
<b>Net cash inflow / (outflow) from operating activities</b>		<b>11,773</b>	<b>(11,088)</b>
<b>Cash flows from investing activities</b>			
Interest received		99	199
Purchases of property, plant and equipment		(738)	(1,646)
Purchases of intangibles	10	(1,185)	(751)
Proceeds from sale of property, plant and equipment	11	1	19
<b>Net cash outflow from investing activities</b>		<b>(1,823)</b>	<b>(2,179)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		–	–
<b>Net cash outflow from financing activities</b>		<b>–</b>	<b>–</b>
<b>Increase/(Decrease) in cash and cash equivalents in the year</b>		<b>9,950</b>	<b>(13,267)</b>
<b>Cash and cash equivalents at beginning of year</b>	14	<b>13,677</b>	26,944
Increase/(Decrease) in cash and cash equivalents in the year		9,950	(13,267)
<b>Closing net funds</b>	<b>14</b>	<b>23,627</b>	<b>13,677</b>

The accounting policies and notes on pages 74 to 99 form part of these financial statements.

# Notes to the Accounts

For the year ended 31 March 2013

## 1. Basis of presentation and principal accounting policies

The Office of Communications (Ofcom) is an organisation that provides a broad range of regulatory services, and is domiciled in the United Kingdom. The financial statements of the Organisation for 31 March 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Union.

These financial statements have been prepared under the historical cost convention modified by the revaluation of certain non-current assets, on a going concern basis, in accordance International Financial Reporting Standards (IFRS). The financial statements are prepared on the basis of all IFRS accounting standards and interpretations and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the European Union IAS Regulation, except where these are overridden by the Office of Communications Act 2002. These financial statements are prepared under the accounts direction from the Departments for Business, Innovation and Skills (BIS) and Culture, Media and Sport (DCMS) issued on 16 January 2008 which forms part of the Financial Memorandum (FM) as approved by BIS and DCMS.

Amounts in the Financial Statements are stated in pounds sterling, which is the functional currency of the organisation.

### a) Adoption of new and revised standards

Certain new standards, amendments and interpretations to existing standards have been published but are not effective on Ofcom's accounting period.

The following new standards, amendments and interpretations to existing standards are not yet effective and have not been early adopted by Ofcom:

- IFRS 7 Financial Instruments (Amendment): Disclosures effective 1 January 2013
- IFRS 9 Financial Instrument (New) effective 1 January 2015
- IFRS 10 Consolidated Financial Statements (New) effective 1 January 2013
- IFRS 12 Disclosure of Interest in other entities (New) effective 1 January 2013
- IFRS 13 Fair Value Measurement (New) effective 1 January 2013
- IAS 1 Presentation of Financial Statements (Amendment) effective 1 July 2012
- IAS 19 Employee Benefits (Amendment) effective 1 January 2013
- IAS 27 Consolidated and Separate Financial Statements (Amendment) effective 1 January 2013

- IAS 32 Financial Instruments: Presentation (Amendment) effective 1 January 2014

The Board anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of Ofcom.

### b) Income recognition

Income comprises the fair value of the consideration received or receivable in the ordinary course of Ofcom's activities. Income is shown net of value-added tax, returns, rebates and discounts.

Ofcom recognises income when the amount of income can be reliably measured and it is probable that future economic benefits will flow to the entity.

### Grant-in-aid

This income comprises grant-in-aid from DCMS to meet the costs of spectrum management, spectrum awards, spectrum clearance, ex post competition, public interest, local media assessments, website blocking, joint ventures (m-commerce), nuisance calls, consumer protection, online copyright infringement and media literacy. Grant-in-aid received from DCMS is allocated and matched to costs in the year to which it relates.

The Spectrum Clearance and Awards Programme (SCAP) oversee the clearance (including mitigation of potential interference) and auction of 800MHz and 2.6GHz spectrum.

Clearance is undertaken by 3rd parties who are funded by way of a capital grant which has been considered and approved by the Spectrum Clearance Finance Committee. SCAP is funded via Grant-in-aid.

The grant recipients for SCAP request funding from Ofcom once the grant conditions have been satisfied. Ofcom recognises grant costs upon receipt of the request for funding or upon completion of the reconciliation review of actual costs incurred. All other costs are recognised as activity is undertaken by Ofcom.

#### **Networks and services administrative fees**

Income which comprises administrative fees invoiced by Ofcom is accounted for on an accruals basis. Income in excess of networks and services' cash costs is classified as deferred income on the Statement of Financial Position. Cash costs in excess of income received are classified as a receivable at the end of the reporting date.

#### **Broadcasting licence fees**

Income from broadcasting licence fees represents the amount invoiced to licensees and is accounted for on an accruals basis. Income in excess of Broadcasting's cash costs is classified as deferred income on the Statement of Financial Position. Cash costs in excess of income received are classified as a receivable at the end of the reporting date.

#### **Application fees**

One-off Broadcasting and Networks and services application fees are non-refundable and accordingly are recorded as income on receipt of the stakeholder application.

#### **Other income**

Other income is accounted for on an accruals basis and is matched with the expenditure towards which it contributes.

#### **c) Receipts collected by Ofcom within the scope of Section 400 of the Communications Act 2003**

In accordance with Section 400 of the Communications Act 2003, Broadcasting Act Additional Payments and penalties and fines levied by Ofcom are remitted to the Consolidated Fund. Licence fees levied by Ofcom arising from the issue or renewal of licences under the Wireless Telegraphy (WT) Acts are also remitted to DCMS for payment to the Consolidated Fund.

No entries are made in these Financial Statements in respect of Section 400-related transactions, unless payments and fees have been collected and deposited into Ofcom's main bank account at the end of the reporting date. These are shown as due to the Consolidated Fund within Payables due within one year.

Ofcom prepares a separate set of financial statements to 31 March each year for the purposes of Section 400 of the Communications Act 2003 which are laid before Parliament.

#### **d) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made and received under operating leases are recognised in Income or Expenditure on a straight-line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease value, over the non-cancellable term of the lease.

#### **e) Property, plant and equipment**

Property, plant and equipment include the purchase of new assets and extensions to, enhancements to, or replacement of existing assets.

A Treasury direction on property, plant and equipment allows Ofcom to use depreciated historical cost as a proxy for current valuation for non-property assets of a short useful life or low value. All Ofcom assets fall in this category. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Property, plant and equipment is recorded at cost or deemed cost, less accumulated depreciation and any impairment losses. Property, plant and equipment over £2,500 are capitalised.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Ofcom and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Income and Expenditure during the financial period in which they are incurred.

Property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful lives. In assessing estimated useful lives, which are reviewed on an annual basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets.

Depreciation is calculated from the month following that in which an asset is brought into service over the estimated useful life of the asset. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Fixtures & Fittings – Leasehold Improvements	Period of the lease
Fixtures & Fittings – Furniture	7 years
Office and Field Equipment	4 to 7 years
Computer Hardware	3 to 5 years
Motor Vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Loss/(Profit) on disposal of non-current assets' in the 'Other operating costs' note per the Statement of Income and Expenditure.

#### f) Intangible assets

Intangible assets are stated at cost less accumulated amortisation using the revaluation model where the impact of revaluation is material, and are reviewed annually for impairment. Expenditure capitalised includes the costs of software applications and development and related licences fees.

Internally generated intangible non-current assets, such as computer software, are recognised only if an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred. Development expenditure previously recognised as an expense is not recognised as an asset in a subsequent period.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Amortisation on capitalised development costs is charged to the income statement on a straight-line basis, from the month following that in which an asset is brought into service, over the estimated useful life of the asset. The estimated useful life is three to five years.

Development expenditure comprises costs incurred in developing computer systems, which will replace some of the current applications. Assets under construction comprises of technical field equipment in the process of being constructed.

Research expenditure is written off as incurred to the Statement of Income and Expenditure. No amortisation or depreciation is provided on assets in the course of development or construction.

#### g) Impairment of assets

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower.

Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

At each reporting date, the carrying value of non-current assets is reviewed to determine if there is some indication that the carrying value of the assets may have been impaired. Material impairments are recognised separately in the Statement of Income and Expenditure. Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**h) Trade receivables**

Trade receivables are amounts due from stakeholders for licenses, fees and charges. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

**i) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and rent deposits.

**j) Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**k) Employee benefits****Pension Schemes**

Ofcom has a range of pension schemes which include defined contributions plans, defined benefit plans and unfunded plans.

**Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in income and expenditure in line with the service that gives rise to the obligation. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

New staff may join a stakeholder pension scheme, which is a defined contribution scheme.

**Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Ofcom's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of Ofcom's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to Ofcom, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside income and expenditure and presented in the Statement of Changes in Equity.

Ofcom participates in two defined benefit pension schemes which relate to staff that transferred to Ofcom from legacy organisations. These schemes are closed to new members and following consultation with Plan members have been closed for future accrual as from 1 June 2011.

The first Ofcom Defined Benefit Pension Plan provides benefits that are broadly equivalent to the Principal Civil Service Pension Scheme (PCSPS). Ofcom jointly participates with the Advertising Standards Authority in the scheme. The second scheme is the Ofcom (Former ITC) Staff Pension Plan where Ofcom is one of four participating employers. The assets of this scheme are held in a separately administered trust.

IAS19 requires that, where a scheme is in surplus according to the IAS19 assumptions, the surplus can only be recognised on an entity's Statement of Financial Position if an economic benefit is "available" to the entity as a result of the surplus.

IFRIC 14 applies to all post employment defined benefits and other long term employee defined benefits. Ofcom follows the interpretation of this standard.

**Unfunded schemes**

Ofcom also has liabilities in respect of pension payments to three former Chairmen of the Independent Television Commission, two former Chairmen of the Radio Authority, two former Directors General of The Office of Telecommunications and two former Chairmen of Postcomm. These are unfunded schemes and are accounted for under IAS 19 with a provision included in Ofcom's balance sheet for the actuarial valuation of the liabilities.



## Other employee benefits

### Early retirement costs

The Radiocommunications Agency and Oftel operated an Early Retirement Scheme which gave retirement benefits to certain qualifying employees. These benefits conform to the rules of the PCSPS. The liability of the Agency and Oftel to bear the costs of these benefits transferred to Ofcom on 29 December 2003. The liability remains until the normal retirement age of the employees retired under the Early Retirement Scheme. These additional costs are based on the discounted value of the annual amounts payable at the reporting date and are included in provisions. The actual amounts payable increase annually in accordance with PCSPS rules.

The annual compensation payment (ACP) is part of the severance package for some colleagues who transferred to Ofcom on their old Civil Service terms and conditions of employment. From the date of early retirement until retiring age the colleague receives an annual compensation payment (ACP) equal to the preserved pension. This is paid by monthly instalments in arrears like a pension. It begins to accrue on the day immediately following the date of retirement and continues until the preserved pension comes into payment, when it stops.

### Colleague leave liability

Under IAS 19 Employee Benefits, all costs must be recorded as an expense as soon as the obligation to pay employees arises. This includes the cost of any untaken leave as at the year end.

Colleagues who have completed five years of continuous service are entitled to a paid sabbatical of five weeks and thereafter accrue one week for each additional year of service subject to a maximum of ten weeks. An accrual, based on management's best estimates using current salary data and churn rates is included as part of accruals. As from 1st January 2008, this benefit was withdrawn for new employees.

### l) Provisions

Provisions for early retirement and vacant property are recognised when: Ofcom has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Ofcom provides for obligations relating to excess leased space in its properties, discounted by the published Treasury discount rates. The provisions represent the net present value of the future estimated costs after recognising reasonably certain future rental income. The unwinding of the discount is included within other finance costs in the Statement of Income and Expenditure.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### m) Settlement of claims

Provision is made for estimated third party legal costs and damages in respect of challenges to regulatory decisions of Ofcom and legacy organisations where it is judged probable that these will be payable.

### n) Foreign exchange

Transactions designated in foreign currencies are translated into sterling at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities designated in foreign currencies are translated at the rates prevailing at the reporting date with the resulting profit or loss recognised in the Statement of Income and Expenditure for the year.

### o) Financial instruments and credit risk

#### Borrowings

Ofcom has limited powers to borrow money to fund short-term fluctuations in cash flow.

#### Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and rent deposits. Interest income receivable on cash and cash equivalents is recognised as it is earned.

#### Trade receivables

Trade and other receivables are non-interest bearing and stated at fair value. Provision is made where there is evidence that the balances will not be recovered in full.

#### Trade payables

Trade payables are not interest bearing and are stated at their fair value.

### p) Current and deferred income tax

HM Revenue and Customs has ruled that Ofcom's regulatory functions do not constitute a trading business. Consequently, Ofcom is unable to recover VAT on expenditure which it incurs as part of its regulatory activities.

Corporation Tax is assessable on interest received, and in respect of rental income net of property expenditure arising from letting surplus property.

At the reporting date, Ofcom had unutilised tax losses available for offset against future taxable income. These losses have arisen as a result of onerous lease provisions on properties inherited from predecessor bodies that were excess to requirements when Ofcom was incorporated.

#### Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities relating to taxable activities, and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which they can be utilised.

#### Recognition of deferred tax assets

The carrying amount of deferred tax assets is reviewed at each reporting date. When assessing the probability of a taxable profit being available, account is taken of prior year results, forecast future results and non-recurring items unlikely to occur in the future.

As such, the assessment of the Organisation's ability to utilise tax losses carried forward is to a large extent judgement based. If future taxable results prove significantly different to those expected, the carrying amount of deferred tax assets will be increased or decreased, with a potentially material impact on the Statement of Financial Position and Statement of Income and Expenditure.

Deferred tax assets are measured at the tax rates expected to apply to Ofcom when the asset is realised based on tax rates enacted or substantially enacted by the end of the reporting period.

### q) Segmental analysis

A segment is a distinguishable component of the organisation that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), and is subject to risks and rewards that are different from those of other segments. No analysis of Ofcom's turnover from operations by geographical segment or business segment has been presented as all Ofcom's activities are carried out in the UK and within the regulatory sector. However, in order to meet with the requirements of the Communications Act 2003 to provide information on costs and fees, Note 2 to these financial statements presents the Statement of Income and Expenditure for the year under review by sector.

### r) Areas of judgement and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimations is contained in the accounting policies or the notes to the financial statements, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- Revenue recognition and assessment of unbilled revenue – accounting policy b
- Deferred tax asset utilisation in respect of available future taxable profits – accounting policy p

Key sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Estimation of liabilities for pension and other post-retirement benefits – accounting policy k

## 2. Sectoral analysis

The analysis below refers to income by sector for the year ended 31 March 2013, together with attributable costs. This is prepared in accordance with the Communications Act 2003 and Postal Services Act 2011 and not in terms of IFRS 8 Segmental Reporting, as per the accounting policy 1 (q).

	Spectrum management £'000	Spectrum clearance £'000	Spectrum awards £'000	Networks & services £'000	Broadcasting £'000	Postal Regulation £'000	Other income £'000	31 March 2013 Total £'000	31 March 2012 Total £'000
<b>Revenue</b>									
Licence and administration fees	–	–	–	27,715	16,931	7,238	–	<b>51,884</b>	48,074
Application fees	–	–	–	30	698	–	–	<b>728</b>	682
Grant-in-aid	62,307	45,292	2,318	–	–	–	1,566	<b>111,483</b>	114,521
Fire Brigade Rebate	(316)	–	–	–	–	–	–	<b>(316)</b>	–
Other income	–	–	–	–	–	–	–	–	788
Accrued/(Deferred) income	(1,698)	(7,675)	(140)	195	(2,668)	(2,790)	722	<b>(14,054)</b>	(6,097)
<b>Total revenue</b>	<b>60,293</b>	<b>37,617</b>	<b>2,178</b>	<b>27,940</b>	<b>14,961</b>	<b>4,448</b>	<b>2,288</b>	<b>149,725</b>	<b>157,968</b>
Rental and other Income	647	–	–	300	160	48	25	<b>1,180</b>	557
<b>Operating income</b>	<b>60,940</b>	<b>37,617</b>	<b>2,178</b>	<b>28,240</b>	<b>15,121</b>	<b>4,496</b>	<b>2,313</b>	<b>150,905</b>	<b>158,525</b>
Interest receivable	54	–	–	25	14	4	2	<b>99</b>	199
<b>Total income</b>	<b>60,994</b>	<b>37,617</b>	<b>2,178</b>	<b>28,265</b>	<b>15,135</b>	<b>4,500</b>	<b>2,315</b>	<b>151,004</b>	<b>158,724</b>
Loan repayments	–	–	–	–	–	–	–	–	–
Interest payable	–	–	–	–	–	–	–	–	–
<b>Net operating income</b>	<b>60,994</b>	<b>37,617</b>	<b>2,178</b>	<b>28,265</b>	<b>15,135</b>	<b>4,500</b>	<b>2,315</b>	<b>151,004</b>	<b>158,724</b>
Onerous property and accrued rental income	1,052	–	–	488	260	78	40	<b>1,918</b>	2,368
<b>Cash income</b>	<b>62,046</b>	<b>37,617</b>	<b>2,178</b>	<b>28,753</b>	<b>15,395</b>	<b>4,578</b>	<b>2,355</b>	<b>152,922</b>	<b>161,092</b>
<b>Total costs</b>	<b>(62,046)</b>	<b>(37,617)</b>	<b>(2,178)</b>	<b>(28,753)</b>	<b>(15,395)</b>	<b>(4,578)</b>	<b>(2,355)</b>	<b>(152,922)</b>	<b>(161,092)</b>
<b>Surplus on cash cost basis</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Comparative costs by sector									
<b>Year ending 31 March 2013</b>	<b>(62,046)</b>	<b>(37,617)</b>	<b>(2,178)</b>	<b>(28,753)</b>	<b>(15,395)</b>	<b>(4,578)</b>	<b>(2,355)</b>	<b>(152,922)</b>	
Year ending 31 March 2012	(61,358)	(48,170)	(1,059)	(25,995)	(18,606)	(4,115)	(1,789)	<b>(161,092)</b>	

Other income comprises:

- grant-in-aid relating to orphan expenditure in respect of duties for competition enquiries, media literacy work, public interest test activity, local media assessments, nuisance calls, consumer protection and joint ventures (m-commerce);
- grant-in-aid funded online copyright infringement work;
- adjudicator income;
- commercial activities including spectrum interference work; and
- rental income from sub-letting vacant property space.

Fire Brigade rebate relates to refunds paid out to police and fire services in England and Wales in respect of released spectrum. The fees were originally collected under the Wireless Telegraphy Act 2006 and reported in the Financial Statements for the purposes of Section 400 of the Communications Act 2003 in 2012. As the monies were already surrendered to the Consolidated Fund it could only be reimbursed through an additional grant-in-aid claim to DCMS.

In accordance with Ofcom's accounting policies, as set out in note 1(b) to these accounts, grant-in-aid is accounted for in the period in which it is received.

The above table is prepared on an adjusted cash basis, which includes capital expenditure and actual contributions to pension schemes, but excludes depreciation.

Ofcom's licence and administrative fees are based on an estimate of cash costs in accordance with its Statement of Charging Principles. Where in the current year there is an excess of income over expenditure, the surplus will be rebated to the relevant stakeholders, in accordance with Ofcom's Statement of Charging Principles. Where in the current year there is an excess of expenditure over income, the deficit will be collected from the relevant stakeholders, in accordance with Ofcom's Statement of Charging Principles.

### Reconciliation from operating expenditure to actual operating out-turn

	Notes	2013 £'000	2012 £'000
<b>Operating expenditure – Statement of Income and Expenditure</b>		<b>152,180</b>	<b>152,910</b>
Adjustments in respect of pension asset and liability		2,062	10,430
Vacant property costs	17	1,165	537
Capital expenditure less depreciation		(5,402)	(6,372)
Actual rent payments less expenditure		1,309	1,523
Other adjustments		1,609	2,083
Proceeds from fixed assets		(1)	(19)
<b>Cash operating expenditure</b>		<b>152,922</b>	<b>161,092</b>
Spectrum clearance		(37,617)	(48,169)
Spectrum awards		(2,178)	(1,059)
Non-operating income		(3,199)	(3,124)
<b>Actual operating costs out-turn</b>		<b>109,928</b>	<b>108,739</b>

### 3. Income

	2013 £'000	2012 £'000
<b>Grant-in-aid DCMS</b>		
Spectrum management	60,142	59,644
Spectrum awards	2,178	1,059
Spectrum clearance	37,617	48,170
Competition law enforcement	431	596
Public interest test	206	62
Integration of postal service pre Royal Assent	–	(406)
Local media assessment	55	33
Website Blocking	–	79
Joint ventures (m-commerce)	24	–
Nuisance calls	656	–
Consumer protection	148	–
Online Copyright Infringement (OCI)	595	663
Media literacy	173	305
<b>Grant-in-aid Scottish Government</b>		–
Commonwealth Games	151	–
<b>Total government grant-in-aid</b>	<b>102,376</b>	<b>110,205</b>
Networks & services administrative and application fees	27,940	25,270
Broadcasting Act licence and application fees	14,961	18,086
Integration of postal service regulation	–	1,194
Regulation of postal services	4,448	3,213
Rental income	39	5
Other income	1,141	552
<b>Total income</b>	<b>150,905</b>	<b>158,525</b>

Nuisance calls, consumer protection and joint ventures (m-commerce) are further functions identified as requiring grant-in-aid funding from DCMS.

Funding for the 2014 Commonwealth Games was agreed with the Scottish Government in 2013 and income received in 2013 includes amounts relating to 2012 previously funded by DCMS.

## 4. Staff costs

	Other staff costs £'000	Spectrum Clearance & Awards £'000	Total 2013 £'000	Other staff costs £'000	Spectrum Clearance & Awards £'000	Total 2012 £'000
Staff costs, including fees paid to Board Members, were:						
Salaries & benefits	49,209	918	<b>50,127</b>	44,411	728	45,139
National Insurance costs	5,985	105	<b>6,090</b>	5,388	89	5,477
Pension costs	4,331	74	<b>4,405</b>	4,365	63	4,428
Restructuring costs	1,049	7	<b>1,056</b>	193	–	193
<b>Total staff costs</b>	<b>60,574</b>	<b>1,104</b>	<b>61,678</b>	<b>54,357</b>	<b>880</b>	<b>55,237</b>

The restructuring costs in 2013 relate to the successful completion of the Olympics project together with further restructuring activities completed in the year and includes an accrual for those costs unpaid at year end relating to 11 (2012: 2) employees.

More detailed information in respect of the remuneration and pension entitlements of the directors and senior executives is shown in the remuneration report on pages 59 to 62.

During the year 4 employees were seconded to other organisations and thus this credit is included within the staff costs line in the table above.

Spectrum Clearance and Awards costs have been presented separately from core Ofcom staff costs in order to provide a more meaningful comparison between the years.

## 5. Employee numbers

	2013	2012
The average number of employees	<b>781</b>	735

As at 31 March 2013, Ofcom had 778 employees (2012: 778).

Non-Executive Members of the Ofcom Board, Content Board, Advisory Committees and employees seconded to Ofcom are excluded from employee numbers.

Employee numbers for 2013 reflect the full year of postal regulation and the transfer of 48 roles from the previous regulator in 2012.

## 6. Other operating costs

	Other Operating costs £'000	Spectrum Clearance & Awards £'000	Total 2013 £'000	Other Operating costs £'000	Spectrum Clearance & Awards £'000	Total 2012 £'000
Auditors remuneration – statutory audit fees	77	–	<b>77</b>	78	–	78
Auditors remuneration – Section 400	14	–	<b>14</b>	14	–	14
Auditors remuneration – Whole of Government Accounts	–	–	–	3	–	3
Professional fees	6,179	4,753	<b>10,932</b>	7,441	6,375	13,816
Outsourced services	10,788	172	<b>10,960</b>	9,828	–	9,828
Audience and consumer research	4,916	–	<b>4,916</b>	4,002	32	4,034
Technological research and spectrum efficiency projects	1,163	26	<b>1,189</b>	1,218	133	1,351
Spectrum clearance scheme	–	33,060	<b>33,060</b>	–	41,005	41,005
Temporary staff and recruitment	3,089	513	<b>3,602</b>	2,769	340	3,109
Travel and subsistence	1,338	36	<b>1,374</b>	1,545	37	1,582
Premises costs	6,990	85	<b>7,075</b>	4,022	–	4,022
Administration and office expenses	6,089	33	<b>6,122</b>	6,422	14	6,436
Information and technology costs	3,307	5	<b>3,312</b>	3,029	2	3,031
Vehicles	544	–	<b>544</b>	517	–	517
Bad and doubtful debt	(6)	–	<b>(6)</b>	(67)	–	(67)
Amortisation	4,032	9	<b>4,041</b>	5,083	2	5,085
Depreciation	3,222	55	<b>3,277</b>	3,687	6	3,693
Loss on disposal of non-current assets	13	–	<b>13</b>	136	–	136
<b>Total other operating costs</b>	<b>51,755</b>	<b>38,747</b>	<b>90,502</b>	<b>49,727</b>	<b>47,946</b>	<b>97,673</b>
<b>The costs, above, include:</b>						
Operating leases – land and buildings	5,859	–	<b>5,859</b>	5,805	–	5,805
Operating leases – vehicles	378	–	<b>378</b>	352	–	352
Operating leases – other	230	–	<b>230</b>	221	–	221

Spectrum Clearance and Awards costs have been presented separately from core Ofcom operating costs in order to provide a more meaningful comparison between the years.

## 7. Vacant property charge

	2013 £'000	2012 £'000
Future costs of vacant properties	544	150

During the course of 2012/13 a further floor has been vacated by Ofcom at Riverside House, new tenants have been identified for all vacant floors and sub-leases are currently being finalised. In addition, leases with existing tenants in Riverside House have been renegotiated to align with the term and break option of Ofcom's head-lease. As a result of these changes, a further release of the provision for vacant properties has been made as reported in Note 17.

## 8. Interest paid

	2013 £'000	2012 £'000
Interest paid	-	-



## 9. Taxation

	2013 £'000	2012 £'000
<b>Tax (charge)/credit for the year</b>		
United Kingdom Corporation Tax income/(expense)	–	–
Deferred tax credit/(debit)	(121)	(53)
<b>Tax credited/(charged) to Statement of Income and Expenditure</b>	<b>(121)</b>	<b>(53)</b>

<b>Reconciliation of tax charge</b>	2013 £'000	2012 £'000
(Deficit)/Surplus before tax	(615)	6,889
Tax on profit at the UK standard rate of Corporation Tax of 20% (2011: 20%)	(124)	1,378
Income not subject to tax	(30,188)	(31,722)
Expenses not deductible	30,433	30,397
Increase in/(Utilisation of) brought forward tax losses	(121)	(53)
<b>Tax charge</b>	<b>–</b>	<b>–</b>

<b>Deferred tax</b>	<b>Tax losses £'000</b>
Analysis of movements in the net deferred tax balance during the year	
<b>Deferred tax asset at 1 April 2011</b>	<b>2,654</b>
Increase in brought forward tax losses	(53)
<b>Deferred tax asset at 1 April 2012</b>	<b>2,601</b>
Utilisation of brought forward tax losses	(121)
<b>Deferred tax asset at 31 March 2013</b>	<b>2,480</b>
Deferred tax asset to be recovered within 12 months	20
Deferred tax asset to be recovered after more than 12 months	2,460
	<b>2,480</b>

All deferred tax assets relate to brought forward tax losses. Utilisation of the deferred tax asset is dependent on future taxable profits arising.

The assessed losses have arisen predominantly as a result of onerous lease provisions on properties inherited from predecessor bodies that were in excess of requirements when Ofcom was incorporated.

## 10. Property, plant and equipment

	Leasehold improvements £'000	Fixtures & fittings £'000	Office & field equipment £'000	Computer hardware £'000	Motor vehicles £'000	Assets under Construction £'000	Total £'000
<b>Cost</b>							
<b>At 1 April 2011</b>	<b>14,555</b>	<b>839</b>	<b>13,984</b>	<b>9,715</b>	<b>126</b>	<b>–</b>	<b>39,219</b>
Additions during year	432	19	904	25	–	266	1,646
Impairment	–	–	–	–	–	–	–
Disposals	(452)	(4)	(765)	(1,908)	(7)	–	(3,136)
Transfers	–	–	–	–	–	–	–
<b>At 31 March 2012</b>	<b>14,535</b>	<b>854</b>	<b>14,123</b>	<b>7,832</b>	<b>119</b>	<b>266</b>	<b>37,729</b>
Additions during year	47	31	211	175	125	149	738
Impairment	–	–	–	–	–	–	–
Disposals	(32)	(127)	(185)	(1,257)	–	–	(1,601)
Transfers	–	–	136	130	–	(266)	–
<b>Cost at 31 March 2013</b>	<b>14,550</b>	<b>758</b>	<b>14,285</b>	<b>6,880</b>	<b>244</b>	<b>149</b>	<b>36,866</b>
<b>Depreciation</b>							
<b>At 1 April 2011</b>	<b>8,711</b>	<b>504</b>	<b>10,302</b>	<b>3,739</b>	<b>126</b>	<b>–</b>	<b>23,382</b>
Charge for the year	980	83	950	1,680	–	–	3,693
Impairment	–	–	–	–	–	–	–
Disposals	(304)	(4)	(762)	(1,904)	(7)	–	(2,981)
Transfers	–	–	–	–	–	–	–
<b>At 31 March 2012</b>	<b>9,387</b>	<b>583</b>	<b>10,490</b>	<b>3,515</b>	<b>119</b>	<b>–</b>	<b>24,094</b>
Charge for the year	883	68	766	1,538	22	–	3,277
Impairment	–	–	–	–	–	–	–
Disposals	(20)	(126)	(185)	(1,257)	–	–	(1,588)
Transfers	–	–	–	–	–	–	–
<b>Accumulated depreciation at 31 March 2013</b>	<b>10,250</b>	<b>525</b>	<b>11,071</b>	<b>3,796</b>	<b>141</b>	<b>–</b>	<b>25,783</b>
<b>NBV 31 March 2013</b>	<b>4,300</b>	<b>233</b>	<b>3,214</b>	<b>3,084</b>	<b>103</b>	<b>149</b>	<b>11,083</b>
NBV 31 March 2012	5,148	271	3,633	4,317	–	266	13,635

All assets set out in the table above are Ofcom-owned assets.

Equipment purchased for the Spectrum Clearance and Awards program has been included in Ofcom's asset registers under Field Equipment. During 2012/13 these costs amounted to £0.4m.

## 11. Intangible assets

	Website Development £'000	Software licences £'000	Information technology £'000	Development expenditure £'000	Total £'000
<b>Cost</b>					
<b>At 1 April 2011</b>	<b>39</b>	<b>5,357</b>	<b>21,756</b>	<b>2,602</b>	<b>29,754</b>
Additions during year	–	108	246	397	751
Impairment	–	–	–	–	–
Disposals	–	(449)	(74)	–	(523)
Transfers	–	–	1,818	(1,818)	–
<b>At 31 March 2012</b>	<b>39</b>	<b>5,016</b>	<b>23,746</b>	<b>1,181</b>	<b>29,982</b>
Additions during year	18	17	509	641	1,185
Impairment	–	–	–	–	–
Disposals	–	–	–	–	–
Transfers	–	–	–	–	–
<b>Cost at 31 March 2013</b>	<b>57</b>	<b>5,033</b>	<b>24,255</b>	<b>1,822</b>	<b>31,167</b>
<b>Amortisation</b>					
<b>At 1 April 2011</b>	<b>11</b>	<b>3,548</b>	<b>14,482</b>	<b>–</b>	<b>18,041</b>
Charge for the year	13	776	4,296	–	5,085
Impairment	–	–	–	–	–
Disposals	–	(449)	(74)	–	(523)
Transfers	–	–	–	–	–
<b>At 31 March 2012</b>	<b>24</b>	<b>3,875</b>	<b>18,704</b>	<b>–</b>	<b>22,603</b>
Charge for the year	14	587	3,440	–	4,041
Impairment	–	–	–	–	–
Disposals	–	–	–	–	–
Transfers	–	–	–	–	–
<b>Accumulated amortisation at 31 March 2013</b>	<b>38</b>	<b>4,462</b>	<b>22,144</b>	<b>–</b>	<b>26,644</b>
<b>NBV 31 March 2013</b>	<b>19</b>	<b>571</b>	<b>2,111</b>	<b>1,822</b>	<b>4,523</b>
NBV 31 March 2012	15	1,141	5,042	1,181	7,379

All assets set out in the table above are Ofcom-owned assets.

## 12. Trade and other receivables – amounts falling due within one year

	2013 £'000	2012 £'000
Trade receivables	2,247	1,501
Other receivables	153	163
Value added tax receivable	36	–
Prepayments	5,302	5,451
Staff loans and advances	243	238
Accrued income	866	1,591
Accrued income (Grant-in-aid DCMS)	840	–
<b>Total trade and other receivables – amounts falling due within one year</b>	<b>9,687</b>	<b>8,944</b>

Staff loans relate to 169 (2012:173) season ticket loans to colleagues repayable over 12 months.

## 13. Trade and other receivables – amounts receivable after more than one year

	2013 £'000	2012 £'000
Prepayments	172	277
Accrued income	163	839
<b>Total trade and other receivables – amounts receivable after more than one year</b>	<b>335</b>	<b>1,116</b>

## 14. Cash and cash equivalents

	2013 £'000	2012 £'000
Commercial banks and cash in hand	23,627	13,677
Balance of funds relating to Section 400	–	–
<b>Total cash and cash equivalents</b>	<b>23,627</b>	<b>13,677</b>

All activities and cash balances relating to Licence Fees and Penalties are separated from the Ofcom accounts and are disclosed in the Section 400 accounts.

## 15. Trade and other payables – amounts falling due within one year

	2013 £'000	2012 £'000
Trade payables	929	1,730
Other tax and social security	1,739	–
Other payables	1,239	580
Value added tax payable	–	88
Grant-in-aid DCMS	9,631	3,932
Accruals	13,165	10,859
Lease incentive accrual	1,309	1,309
Deferred income	5,600	4,826
<b>Total trade and other payables – amounts falling due within one year</b>	<b>33,612</b>	<b>23,324</b>

The Government's target for payments to suppliers is 5 days. In addition to small and medium suppliers, Ofcom also includes large suppliers in this scheme to encourage them to pay their small business suppliers within the shorter timeframe.

For 2012/13 Ofcom achieved on average a performance of 84.97 per cent against these targets (2011/12: 88.30 per cent)

## 16. Trade and other payables – amounts falling due after more than one year

	2013 £'000	2012 £'000
Lease incentive accrual	5,890	7,198
Deferred income	526	412
<b>Total trade and other payables – amounts falling due after more than one year</b>	<b>6,416</b>	<b>7,610</b>

## 17. Provisions for liabilities and charges

	Early retirement £'000	Vacant property £'000	Restructuring £'000	Total £'000
<b>At 1 April 2011</b>	<b>594</b>	<b>4,014</b>	<b>–</b>	<b>4,608</b>
Discount unwound in year	17	88	–	105
Utilised in year	(158)	(537)	–	(695)
Provision increased/(released)	23	(150)	–	(127)
<b>At 1 April 2012</b>	<b>476</b>	<b>3,415</b>	<b>–</b>	<b>3,891</b>
Discount unwound in year	13	75	–	88
Utilised in year	(130)	(1,165)	–	(1,295)
Provision increased/(released)	30	(544)	–	(514)
<b>Total provisions as at 31 March 2013</b>	<b>389</b>	<b>1,781</b>	<b>–</b>	<b>2,170</b>

Provisions are calculated in accordance with the requirements of IAS 37. Provisions for early retirement are discounted by 2.35 per cent (2012: 2.8 per cent) per annum in accordance with HM Treasury direction; all other provisions with a time boundary of 0 to 5 years are discounted by the short term discount rate of 0.4 per cent and for provisions with a time boundary of 5 to 10 years the medium term rate of 1.45 per cent (2012: 2.2 per cent).

Analysis of expected timing of cashflows	Early retirement £'000	Vacant property £'000	Total £'000
<b>Current</b>			
Not later than one year	103	1,225	<b>1,328</b>
	<b>103</b>	<b>1,225</b>	<b>1,328</b>
<b>Non-current</b>			
Later than one year and not later than five years	140	473	<b>613</b>
Later than five years	146	83	<b>229</b>
	<b>286</b>	<b>556</b>	<b>842</b>
	<b>389</b>	<b>1,781</b>	<b>2,170</b>

The provision for early retirement £0.4m (2012: £0.5m) is primarily for Annual Compensation Payments (ACP). The ACP is part of the severance package for some colleagues who transferred to Ofcom on their old Civil Service terms and conditions of employment. The remainder relates to early retirement costs of former employees of Oftel, the Radiocommunications Agency and Ofcom which is payable primarily in the years to 2014.

The provision for vacant properties includes one property (2012: one) which are surplus to requirements. Professional advice has been taken in marketing vacant property and future income streams are recognised as and when sub-letting of properties is reasonably certain. The provision is the net present value of the expected cash outflows calculated to the next lease break, net of the discounted value of future income streams secured from committed or reasonably certain future sub-letting agreements.

## 18. Commitments under operating leases

	Buildings £'000	Vehicles £'000	Other £'000	Total £'000
<b>The future aggregate minimum lease payments under operating leases are as follows:</b>				
Not later than one year	8,310	335	230	<b>8,875</b>
Later than one year and not later than five years	32,542	126	270	<b>32,938</b>
Later than five years	4,790	–	–	<b>4,790</b>
<b>Total commitments under operating leases</b>	<b>45,642</b>	<b>461</b>	<b>500</b>	<b>46,603</b>

The rental agreement of Riverside House is until September 2022 with a break option in September 2018. A rent review is still under way and will be effective from 29 September 2012.

## 19. Amounts receivable under operating leases

	Buildings 2013 £'000
<b>The future minimum lease payments receivable under non-cancellable operating leases are as follows:</b>	
Not later than one year	<b>1,120</b>
Later than one year and not later than five years	<b>8,723</b>
Later than five years	<b>1,080</b>
	<b>10,923</b>

Ofcom has entered into sub-lease contracts with regards to surplus office space within its main office building.

## 20. MG Alba

In accordance with Section 210 of the Communications Act 2003 and Section 183 of the Broadcasting Act 1990, the Scottish Ministers paid £12.3m (2012: £11.8m) to Ofcom. This sum has not been reflected in these accounts but has been paid by Ofcom to the Gaelic Broadcasting Fund under the management of the Seirbheis nam Meadhanan Gàidhlig (MG Alba). MG Alba prepares separate reports and accounts to 31 March each year. These are sent by Ofcom to the Secretary of State for Scotland and Scottish Ministers to be laid before the Scottish Parliament.

## 21. Retirement benefit obligations

Ofcom has a range of pension schemes which include defined contributions plans, defined benefit plans and unfunded plans.

	2013 £'000	2012 £'000
Defined Benefit pensions – 21B	27,200	32,420
Unfunded pensions liability – 21C	(1,162)	(1,091)
<b>Total retirement benefit obligations</b>	<b>26,038</b>	<b>31,329</b>

### A) Stakeholder pension plan

Ofcom's primary means of providing pension benefits to its colleagues is by contributing to a stakeholder pension plan, which is a defined contribution pension plan. Employer contributions of £4.5m were made in the year ended 31 March 2013 (2012: £4.1m).

### B) Closed pension plans

Ofcom operates two closed defined benefit pension plans:

- the Ofcom Defined Benefit Pension Plan was established on 29 December 2003. The employer contributions made to the Ofcom Defined Benefit Pension Plan for the year ending 31 March 2013 were £0.5m (2012: £1.0m). An additional £1.5m was transferred to the Feeder Trust account. Ofcom also operates a defined contribution section to the plan and made contributions of £0.0m in 2013 (2012: £0.0m); and

- the Ofcom (Former ITC) Pension Plan which Ofcom jointly participates in with three other organisations, S4C, S4C Masnachol and the Advertising Standards Authority. The employer contributions made to the Ofcom (Former ITC) Pension Plan in 2013 was £0.1m (2012: £1.6m). An additional £1.5m was transferred from the Feeder Trust account.

Following consultation with Plan members, Ofcom closed both Plans to future accrual from 1 June 2011. Ofcom informed members of their intention to close the Plans in February 2011.

### Employee benefit obligations

The amounts recognised in the Statement of Financial Position are as follows:	2013 £'000	2012 £'000
Funded status, end of year		
Fair value of plan assets	249,304	223,489
Pension fund feeder bank account	15,006	14,871
Benefit obligations	(227,050)	(194,570)
<b>Funded status</b>	<b>37,260</b>	<b>43,790</b>
Amount not recognised due to asset limit	(10,060)	(11,370)
<b>Net funded status</b>	<b>27,200</b>	<b>32,420</b>



IAS19 requires that, where a scheme is in surplus according to IAS19 assumptions, the surplus can only be recognised on a company's balance sheet if an economic benefit is available to the company as a result of the surplus. Per the Ofcom (former ITC) Plan's Trust Deed and Rules a refund of any surplus is not available to Ofcom and therefore a limitation of the IAS19 asset is required.

The defined benefit obligation has been calculated in accordance with IFRS. Ofcom's cash contributions to its two defined benefit plans are, however, determined in accordance with the Pensions Act 2004 and this requires a significantly more prudent measure of the liabilities than IFRS.

Pensions Act funding valuations with an effective date of 31 March 2012 have been completed for both defined benefit plans and they show a combined deficit of £5.2m. Recovery plans have been agreed with the Trustee of both plans. The results of these valuations, unlike under IFRS, show a significant deficit.

#### The amounts recognised in the Statement of Income and Expenditure are as follows:

The amounts recognised in the Statement of Financial Position are as follows:	2013 £'000	2012 £'000
Current service cost	–	200
Interest on obligation	9,930	10,290
Expected return on plan assets	(10,250)	(11,620)
Past service cost	150	100
Curtailment or settlement (gain)/loss	–	–
<b>Net (surplus)/cost in income and expenditure</b>	<b>(170)</b>	<b>(1,030)</b>
Actual return on plan assets	34,980	13,980

#### Changes in the present value of the defined benefit obligation areas:

The amounts recognised in the Statement of Financial Position are as follows:	2013 £'000	2012 £'000
Opening defined benefit obligation	194,570	187,580
Current service cost	–	200
Interest cost	9,930	10,290
Plan participants' contributions	–	50
Actuarial (gains)/losses	33,490	7,500
Past service cost	150	100
Gains on curtailment	–	–
Benefits paid	(11,090)	(11,150)
<b>Closing defined benefit obligation</b>	<b>227,050</b>	<b>194,570</b>

**Changes in the fair value of plan assets are as follows:**

	2013 £'000	2012 £'000
Opening fair value of plan assets	223,489	217,470
Expected return	10,250	11,620
Actuarial gains	24,730	2,360
Contributions by employer	560	2,630
Contributions from Feeder Trust (net of interest earned)	1,365	509
Plan participants' contributions	–	50
Benefits paid	(11,090)	(11,150)
<b>Closing fair value of plan assets</b>	<b>249,304</b>	<b>223,489</b>

Employer's contributions include £0.6m together with £1.5m less additional interest earned which was transferred from the balance on the Feeder Trust account. A further £1.5m was placed in the Feeder Trust account. Funds transferred to and held in the trust account can only be paid into one of the two Defined Benefit Pension Schemes and are not able to be used for any other purpose.

**The major categories of plan assets as a percentage of total plan assets are as follows:**

	2013 %	2012 %
Equities	16	15
Corporate bonds	9	9
Index-linked bonds	13	13
Fixed interest government bonds	–	–
Annuities	56	56
Other (including assets in the Ofcom Pension Trust)	6	7
	<b>100</b>	<b>100</b>

**Return on assets (before deduction of expenses):**

	2013 %	2012 %
Equities	6.20	6.20
Corporate bonds	4.55	5.25
Index-linked bonds	3.20	3.25
Fixed interest government bonds	3.20	3.25
Annuities	4.55	5.25
Other (including assets in the Ofcom Pension Trust)	1.00	1.00

The expected return on plan assets is calculated using the plan's asset allocation at the disclosure date and the expected return on each major asset class that the plan is invested in.

**Principal actuarial assumptions at the date of the Statement of Financial Position (expressed in weighted averages):**

	2013 %	2012 %
Discount rate	4.55	5.25
Expected return on plan assets for the year (Ofcom DB Plan)	4.55	5.00
Expected return on plan assets for the year (Ofcom (former ITC) Plan)	4.63	5.17
Future salary increases	–	–
Future pension increases (RPI)	3.20	3.15
Future pension increases (CPI)	2.00	2.00
Retail Price Inflation	3.35	3.25

**Amounts for the current and previous years are as follows:**

Amounts for the current and previous years are as follows:	2013 £'000	2012 £'000
<b>Funded status</b>		
Fair value of plan assets	264,310	238,360
Present value of defined benefit obligations	(227,050)	(194,570)
<b>Surplus in fund</b>	<b>37,260</b>	<b>43,790</b>

	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Experience adjustments on plan liabilities	(1,260)	(2,840)	(120)	4,610
Experience adjustments on plan assets	24,730	2,360	290	20,980

### C) Unfunded pension liabilities

The pension provision is in respect of the unfunded pension liabilities which fall to Ofcom for former Chairmen of the Independent Television Commission, the Radio Authority and Postcomm as well as former Directors General of Telecommunications. The pension provision is unfunded, with the benefits being paid as they fall due and guaranteed by Ofcom. There is no fund, and therefore no surplus or deficit. Actuarial advice has been sought to ensure that the provision is set at a realistic level.

#### Analysis of the amount debited to other finance costs

	2013 £'000	2012 £'000
Interest on pension liabilities	(55)	(49)
<b>Net return</b>	<b>(55)</b>	<b>(49)</b>

#### Analysis of the amount recognised in the Statement of Changes in Equity (SOCIE)

	2013 £'000	2012 £'000
Experience (losses)/gains arising on the plans' liabilities	6	(39)
Changes in assumptions underlying the present value of pension scheme liabilities	(101)	(26)
<b>Actuarial loss recognised in SOCIE</b>	<b>(95)</b>	<b>(65)</b>

#### Movement in deficit during the year

	2013 £'000	2012 £'000
Deficit in plans at 1 April	(1,091)	(898)
Total current service cost	–	–
Employer's contributions (including those unpaid at measurement date)	79	65
Employees' contributions	–	–
Past service cost	–	(144)
Other finance costs	(55)	(49)
Actuarial loss	(95)	(65)
<b>Deficit in plan</b>	<b>(1,162)</b>	<b>(1,091)</b>

## 22. Related parties

Ofcom does not consider that its regulatory and licensing role creates the relationship of a related party between itself and licence holders as defined by IAS 24, "Related Party Disclosures".

Members of the Board submit an annual declaration confirming that they have no interests prejudicial to their function as a Member of Ofcom. There were no transactions between Ofcom and its Members other than remuneration as disclosed separately in the remuneration report.

The Secretaries of State for the Department for Business, Innovation and Skills (BIS) and the Department for Culture, Media and Sport (DCMS) are regarded as the controlling related parties of Ofcom under the terms of the Office of Communications Act 2002.

Details of all grant-in-aid income from DCMS are provided in Note 3 and Note 15 respectively of these financial statements.

A defined benefit scheme and two defined contribution schemes are operated. Refer to Note 21 for further disclosure.

At 31 March 2013, the following creditors were held in respect of grant-in-aid provided by DCMS:

- Spectrum management – £1.7m (2012: £0.7m);
- Spectrum clearance and awards – £7.8m (2012: £3.0m);
- Online Copyright Infringement – £0.0m (2012: £0.2m);
- Other sectors – £0.1m (2012: £0.0m)

At 31 March 2013, the following debtor was held in respect of grant-in-aid due by DCMS:

- Orphan expenditure (functions which cannot be funded through fees and charges set under the Communications Act 2003) – £0.8m (2012: £0.0m)

No other related party transactions were entered into during the financial year.

## 23. Financial instruments

Ofcom has no significant exposure to liquidity, interest rate or currency risks. IAS 32, Financial Instruments: Presentation requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the nature of its activities and the way in which Ofcom is financed, it is not exposed to the degree of financial risk faced by business entities.

Moreover, financial instruments play a limited role in creating or changing risk as compared to listed companies to which IAS 32 mainly applies. Ofcom has very limited powers to borrow or invest surplus funds. Financial assets and liabilities that are generated by day-to-day operational activities do not change the risks facing Ofcom in undertaking its activities.

There is no material difference at the reporting date between the fair value and the carrying value of financial assets and liabilities.

As permitted by IAS 32, receivables and payables which mature or become payable within 12 months of the reporting date have been omitted from this assessment.

## 24. Capital commitments

At 31 March 2013 there were capital commitments of £0.1m (2012: £0.9m); in 2012/13 this related to development work for a broadcast licensing solution.

## 25. Receipts transferred to the Consolidated Fund

In accordance with Section 400 of the Communications Act 2003, Ofcom remitted £2.3m (2012: £6.2m) of Broadcasting Act Additional Payments and Fines to the Consolidated Fund.

£2,633.2m (2012: £269.2m) of WT Act licence fees was remitted to DCMS for transfer to the Consolidated Fund. The material difference relates the WT Act fees received from the Auction of 800MHz and 2.6GHz (£2,370.6m). Details on amounts due to the Consolidated Fund at 31 March 2013 are disclosed at Note 14 to these financial statements.

## 26. Contingent liabilities

Ofcom may be subject to appeal of decisions made in carrying out its functions as regulator of the communications sector. Appeals against Ofcom's decisions could give rise to liabilities for legal costs. Ofcom will make a provision in the financial statements for costs to the extent they are probable and quantifiable. For the 2012/13 financial year no provision was required.

However, there is a contingent liability in relation to the appeal by British Sky Broadcasting Limited (Sky) in respect of Ofcom's decision made in March 2010, pursuant to its powers and duty under Section 316 of the Communications Act 2003. In August 2012 the Competition Appeal Tribunal upheld in part Sky's appeal against Ofcom's decision. In May 2013 the Tribunal ordered that Ofcom should pay part of Sky's costs of its appeal. To date, Ofcom has not received from Sky an estimate of such costs and therefore is unable to estimate reliably any potential liability.

Note: the Tribunal's judgment of August 2012 is under appeal to the Court of Appeal. In June 2013 Ofcom applied for permission to appeal the Tribunal's award of costs to Sky.

## 27. Whole of government accounts

At 31 March 2013, Ofcom owed £10.5m (2012: £4.0m) to central government bodies. There are no amounts owing to local authorities, NHS Trusts or public corporations and trading funds.

Section 400 shows £2.2m (2012: £4.4m) owing to central government bodies.

## 28. Events after the reporting period

There were no reportable events between the reporting date and the date when the accounts were certified. The financial statements do not reflect events after this date.

# Annex: Ofcom Boards and Committees

Ofcom's full Board and Committee framework is described in the Governance statement, starting on page 45.

## Board Committees

### The Content Board

The Content Board is a committee of the main Ofcom Board, with delegated and advisory responsibility for a wide range of content issues, predominantly dealing with broadcasting. It is set up under statute, specifically section 12(1) of the Communications Act 2003.

The Ofcom Board will seek advice and recommendations from the Content Board on any content-related aspects of decisions it has reserved for itself. All other content-related decisions are delegated to the Content Board.

The Content Board serves as Ofcom's primary forum for the regulation of television and radio quality and standards. It is charged with understanding, analysing and championing the voices and interest of the viewer, the listener and the citizen.

Members of the Content Board are also Members of the Broadcast Licensing Committee and the Election Committee.

Members
Tim Gardam (Chairman)
Lord Blackwell
Dr David Levy
Anthony Lilley OBE
Iseabail Mactaggart
Glyn Mathias
Dr Paul Moore
Claudio Pollack <sup>1</sup>
Joyce Taylor
James Thickett <sup>1</sup>
Janey Walker
Christopher Woolard <sup>2</sup>

<sup>1</sup> Claudio Pollack and James Thickett were appointed as Executive Members with effect from 1 April 2013

<sup>2</sup> Christopher Woolard, Executive Member, resigned from the Committee on 31 December 2012

### Broadcast Licensing Committee

The Broadcast Licensing Committee has delegated authority from the Ofcom Board to discharge Ofcom's functions in relation to radio (sound) and local television broadcast licensing. The Committee's responsibilities include decisions on the award of new and re-advertised licences, and on licence variations and revocations. The membership of the Committee is on a rolling basis and involves all Content Board members from time to time.

### Community Radio Fund Panel

Section 359 of the Communications Act makes it possible for a fund for community radio operators to be set up, and for Ofcom to administer it and "make such grants as they consider appropriate" to community radio licensees. The Panel meets as required to examine applications and make awards from the Fund. It is independent of the Broadcast Licensing Committee (see above), which awards community radio licences.

Members
Kevin Carey (Chairman)
Richard Hilton
Wendy Pilmer <sup>1</sup>

<sup>1</sup> Wendy Pilmer was appointed with effect from 1 January 2013

### Election Committee

Section 333 of the Communications Act requires Ofcom to ensure that Party Political Broadcasts (including Party Election Broadcasts) and Referendum Campaign Broadcasts are included in the UK regional ITV, Channel 4, Five, Classic FM, talkSPORT and Virgin 1215 services. Unresolved disputes between any licensee and any political party, as to the length, frequency, allocation or scheduling of broadcasts, are brought to Ofcom for resolution. The Ofcom Board has delegated the adjudication on such disputes to a committee known as the Election Committee. The Committee meets as and when required and consists of members drawn from the Content Board.

## The Spectrum Clearance Finance Committee

The Spectrum Clearance and Awards Programme was established to bring together all the projects associated with the clearance and award of the 800 MHz and 2.6 GHz spectrum bands under a single programme management structure. In order to ensure that appropriate financial controls are in place and to consider proposals for spectrum clearance grants, the Ofcom Board has delegated to this Committee responsibility for making grants on spectrum efficiency grounds for any proposed spectrum clearance under section 1(5) of the Wireless Telegraphy Act 2006 and the terms and conditions on which grants are made: grants and the terms and conditions require the consent of the Treasury.

### Members

Sir David Brown (Chairman)

Peter Teague (Deputy Chairman)

Peter Davies <sup>1</sup>

H. Nwana <sup>1,2</sup>

Graham Plumb <sup>1,2</sup>

Kate Stross

1 Executive Members

2 H Nwana resigned from the Committee and was replaced by Graham Plumb with effect from 9 May 2013

## Nations Committee

The Nations Committee is a direct Committee of the Ofcom Board. Its role includes: understanding the political dynamics in each nation of the UK and advising on Ofcom's engagement in each nation; agreeing appropriate processes for Ofcom's engagement with each National Advisory Committee; monitoring stakeholder events in each nation

and overseeing the involvement of, and engagement of, the Ofcom Board in each nation. Its membership comprises two Non-Executive Members of the Ofcom Board, Lynne Brindley (Chairman) and Patricia Hodgson, and the Chairmen of the National Advisory Committees. The Executive Directors of each nation, together with other senior Ofcom executives, are invited to attend Nations Committee meetings.

## The Advisory Committees for the Nations

Section 20 of the Communications Act requires Ofcom to establish Advisory Committees for each of the UK nations. The function of each Committee is to provide advice to Ofcom about the interests and opinions, in relation to communications and postal matters, of people living in the part of the UK for which the Committee has been established.

### Nations Advisory Committee members

	England	Scotland	Wales	Northern Ireland
Chairman	Professor William Dutton	Professor Philip Schlesinger	Ian Clarke	Professor Wallace Ewart OBE
Members	Barney Choudhury <sup>1</sup>	Laura Alexander	Julie Barton	Andrew Colman <sup>9</sup>
	Andrew Chitty <sup>1</sup>	Stuart Gibson <sup>4</sup>	Kim Brook	Isolde Goggin
	Graham Creelman OBE	Liz Leonard <sup>5</sup>	Professor Andrew Davies <sup>8</sup>	Lesley Holmes
	Andrew Davis <sup>1</sup>	Iseabail Mactaggart	John Davies	Libby Kinney
	Helen Foster <sup>2</sup>	Ian McKay <sup>5</sup>	Nerys Evans <sup>8</sup>	Fiona MacMillan <sup>10</sup>
	Olwyn Hocking <sup>2</sup>	Mairi Mcleod	Simon Gibson OBE	Dr Paul Moore
	Becky Hogge <sup>1</sup>	Peter Peacock CBE <sup>6</sup>	Glyn Mathias	Brendan Mulgrew <sup>9</sup>
	Chris Holland	Thomas Prag <sup>7</sup>	Huw Roberts <sup>8</sup>	Ben Preston
	Duncan Ingram <sup>1</sup>			
	Wendy Pilmer <sup>3</sup>			
	Anne Scorer <sup>2</sup>			
	John Varney			
	Robert Watson <sup>2</sup>			

1 Barney Choudhury, Andrew Chitty, Andrew Davis, Becky Hogge and Duncan Ingram were appointed with effect from 1 September 2012

2 Helen Foster, Olwyn Hocking, Anne Scorer and Robert Watson retired on 31 July 2012

3 Wendy Pilmer retired on 31 December 2012

4 Stuart Gibson was appointed with effect from 1 June 2012

5 Liz Leonard and Ian McKay were appointed with effect from 1 February 2013

6 Peter Peacock CBE was appointed with effect from 1 November 2012

7 Thomas Prag retired on 31 December 2012

8 Professor Andrew Davies, Nerys Evans and Huw Roberts were appointed with effect from 1 November 2012

9 Andrew Colman and Brendan Mulgrew were appointed with effect from 1 June 2012

10 Fiona MacMillan was appointed with effect from 1 September 2012



## Non-Board committees

### The Communications Consumer Panel

Section 16 of the Communications Act requires Ofcom to establish a Consumer Panel. The Panel acts as a 'critical friend' to Ofcom, providing advice that is robust and independent, but at the same time pragmatic and constructive.

Independent of Ofcom, the Panel is made up of independent experts, including representatives from Scotland, Wales, Northern Ireland and England with experience in many different fields. Further information on the Panel can be found at [www.communicationsconsumerpanel.org.uk](http://www.communicationsconsumerpanel.org.uk).

### The Advisory Committee on Older and Disabled People

Section 21(1) of the Communications Act requires Ofcom to establish a Committee to advise Ofcom on issues in the communications sector that particularly affect older and disabled people. To take advantage of the synergy between the Communications Consumer Panel and the Advisory Committee on Older and Disabled People and to avoid potential duplication, cross-membership of the two bodies was established in 2012. The remits of the bodies remain unchanged.

### The Ofcom Spectrum Advisory Board

The Ofcom Spectrum Advisory Board (OSAB) was established in 2004 to provide independent advice to Ofcom on strategic spectrum management issues. Further information can be found on the OSAB website at [www.osab.org.uk](http://www.osab.org.uk)

#### Members

Bob Warner CBE (Chairman) <sup>1</sup>

Jo Connell OBE <sup>1</sup>

Fiona Ballantyne <sup>2</sup>

Kim Brook

Colin Browne <sup>2</sup>

Jaya Chakrabarti <sup>3</sup>

Roger Darlington <sup>2</sup>

Chris Holland

Libby Kinney <sup>4</sup>

Mairi Macleod <sup>4</sup>

Craig Tillotson <sup>5</sup>

Bob Twitchin <sup>4</sup>

- 1 Bob Warner retired on 31 July 2012 and was succeeded as Chairman by Jo Connell, who was appointed to the Panel with effect from 1 July 2012
- 2 Fiona Ballantyne, Colin Browne and Roger Darlington retired on 31 July 2012
- 3 Jaya Chakrabarti was appointed with effect from 1 December 2012
- 4 Libby Kinney, Mairi Macleod and Bob Twitchin were appointed with effect from 1 September 2012
- 5 Craig Tillotson was appointed with effect from 1 November 2012

#### Members

Jo Connell, OBE (Chairman)

Liz Atkins <sup>1</sup>

Kim Brook <sup>2</sup>

Jaya Chakrabarti <sup>3</sup>

Chris Holland <sup>2</sup>

Libby Kinney <sup>2</sup>

Mairi Macleod <sup>2</sup>

Suneel Shivdasani <sup>4</sup>

Craig Tillotson <sup>5</sup>

Bob Twitchin

- 1 Liz Atkins retired on 30 June 2012
- 2 Kim Brook, Libby Kinney, Chris Holland and Mairi Macleod were appointed with effect from 1 September 2012
- 3 Jaya Chakrabarti was appointed with effect from 1 December 2012
- 4 Suneel Shivdasani retired on 31 March 2013
- 5 Craig Tillotson was appointed with effect from 1 November 2012

#### Members

David Meyer (Chairman)

Professor Linda Doyle

Robin Foster

Philippa Marks

Philip Marnick

Dr Robert Pepper

Jean-Jacques Sahel

Professor Simon Saunders

Simon Towler (Ex Officio)

Mike Walker

Professor William Webb

Gavin Young

# Annex: Regulatory statements

## The table below summarises Ofcom's policy statements published during 2012/13.

It includes a colour-coded key that indicates how the regulatory burden on stakeholders has changed as a result of Ofcom's regulatory decisions and statements in 2012/13.

It shows that 66 per cent of the statements saw no change in regulatory burden or the work is ongoing; 15 per cent of statements resulted in reduced regulatory burden on stakeholders; 17 per cent of statements saw the introduction of increased or new regulation; while 2 per cent resulted in streamlined or co-regulatory outcomes.

We have categorised each statement in the table below as an Annual Plan Priority or an Ongoing Major Work Area, as set out in the Annual Plan 2012/13.

### List of statements published in 2012/13 including regulatory impact on stakeholders

#### Contribute to and implement public policy defined by Parliament Maintain audience confidence in broadcast content

##### Major Work Area – License new local TV services

Licensing local television – statement

##### Major Work Area – License television and radio services in the UK including a further round of community radio licensing and a continued focus on effective enforcement

Review of the Ofcom designation of the Authority for Television On Demand

##### Programmatic – Ensure efficient and effective programme standards enforcement

A review of the Ofcom rules on party political and referendum broadcasts and proposed Ofcom guidance for broadcast coverage of elections

Guidance for broadcast coverage of the 2012 police and Crime Commissioner elections

##### Promote effective and sustainable competition

##### Major Work Area – Complete review of regulatory framework for post

Proposed changes to Royal Mail's costing manual

Royal Mail's regulatory reporting audit for the year ending 31 March 2013

Securing the Universal Postal Service – safeguard cap for large letters and packets

##### Ensure effective competition in business connectivity and voice telephony markets

Wholesale ISDN30 price control final statement

■ Increased/new regulation

■ Mixed/no-change/ongoing

■ Streamlined/co-regulatory

■ Reduced regulation

### Promote effective competition and informed choice

#### Priority – Ensure effective competition and investment in both current and superfast broadband

Business connectivity market review

Business Connectivity Market Review – Draft Statement

Changes to BT and KCOM's regulatory and financial reporting 2011/12 update

Request from BT for exemption from the Undertakings under the Enterprise Act 2002 for certain high bandwidth services – statement

Waiver of BT's price notification requirements for charges in relation to the transfer and migration of legacy Ethernet services to new Ethernet services

Waiver of BT's price notification requirements to extend FTTC simultaneous provide offer

#### Programmatic – Enforce competition e.g. through resolving disputes and investigating complaints under the Competition Act and imposing penalties where appropriate

Statement following consultation on draft enforcement guidelines

### Promote opportunities to participate

#### Major Work Area – Ensure the adequate provision of services for consumers with hearing impairments

Access services on non-domestic channels

Review of relay services: Decision on the introduction of next generation text relay

#### Priority – Secure the provision of the universal postal service

Decision on modification to Consumer Protection Condition 1

End-to-end competition in the postal sector

Ofcom allows Royal Mail's 'delivery to neighbour' scheme

Review of postal users' needs – An assessment of the reasonable needs of users in relation to the market for the provision of postal services in the United Kingdom

Safeguard cap for Second Class large letters and packets

#### Programmatic – Continued engagement with nations and regions

Revised Northern Ireland Equality Scheme for Ofcom

### Promote the efficient use of public assets

#### Major Work Area – Actively represent UK interests in international spectrum committees

Extending spectrum transfer to the maritime and satellite earth station sectors

#### Major Work Area – Develop a future-looking spectrum policy work programme taking account of market developments and future demand for spectrum

Decision to vary Everything Everywhere's 1800 MHz spectrum licences to allow use of LTE and WIMAX technologies

#### Major Work Area – Implement measures to ensure availability of geographic number ranges

Changes to making local calls in the 01202 area code for Bournemouth, Christchurch and Poole

Promoting efficient use of geographic telephone numbers (Implementing a pilot scheme to charge for certain geographic numbers and making a limited quantity of 100-number blocks available for allocation)

#### Programmatic – Plan spectrum assignments and grant licences

Authorisation regime for GNSS repeaters (1164-1215 MHz, 1215-1300 MHz & 1559-1610 MHz)

## Protect consumers from harm

### Priority – Implement reform of non-geographic numbering to ensure price transparency

Telephone numbering – Modifications to the National Telephone Numbering Plan, General Condition 17 and telephone number applications forms within existing numbering policy

### Programmatic – Provide protection from and enforcement against unfair terms and practices by communications providers

An exception to Royal Mail's universal service obligation – no universal service day for the day after the the Battle of the Boyne bank holiday in Northern Ireland

Review of alternative dispute resolution schemes: Statement

Review of premium rate services – Decision on an application of the analytical framework

## Provide appropriate assurance to audiences on standards

### Major Work Area – License television and radio services in the UK including a further round of community radio licensing and a continued focus on effective enforcement

Television multiplex licence renewal

## Secure optimal use of spectrum

### Major Work Area – Develop a forward-looking spectrum work programme

Securing long-term benefits from scarce low frequency spectrum: UHF strategy statement

### Priority – Timely spectrum clearance in 800 MHz and 2.6 GHz to enable new awards while mitigating co-existence issues

Assessment of future mobile competition and award of 800 MHz and 2.6 GHz

Coexistence of new services in the 800 MHz band with digital terrestrial television

The making of regulations in connection with the award of the 800 MHz and 2.6 GHz spectrum bands

The making of (1) spectrum trading regulations and (2) register regulations in connection with the award of 800 MHz and 2.6 GHz

### Programmatic – Plan spectrum assignments and grant licences

Decision to make the Wireless Telegraphy (Licence Charges) (Amendment) Regulations 2012

Licence Exemption of Wireless Telegraphy Devices – Statement to second consultation

Ofcom's decision to make Wireless Telegraphy Trading and Register Regulations

Programme Making and Special Events – high-power PMSE applications in the lower 2MHz of Channel 38 (606-614 MHz)

### Programmatic – Spectrum enforcement: advise and assist in cases of interference confiscate unauthorised equipment and prosecute where appropriate

Decision to make the Wireless Telegraphy (Control of Interference from Apparatus) (the London Olympic Games and Paralympic Games) Regulations 2012

## Other

### Other – Business planning and management

Annual Plan 2013/14

Ofcom Annual Report 2012/13

Ofcom's Tariff Tables 2013/14

UK Communications Market Report 2012

**Ofcom statements published in 2012/13 in which the earlier consultation included an impact assessment**

Wholesale ISDN30 price control final statement

Decision to make the Wireless Telegraphy (Licence Charges) (Amendment) Regulations 2012

Changes to BT and KCOM's regulatory and financial reporting 2011/12 update

Licensing Local Television – Statement

Extending spectrum transfer to the maritime and satellite earth station sectors

Changes to making local calls in the 01202 area code for Bournemouth, Christchurch and Poole

Proposed changes to Royal Mail's Costing Manual

Decision to make the Wireless Telegraphy (Control of Interference from Apparatus) (the London Olympic Games and Paralympic Games) Regulations 2012

Statement on Authorisation regime for GNSS repeaters (1164-1215 MHz, 1215-1300 MHz & 1559-1610 MHz)

Review of Premium Rate Services – Decision on an application of the analytical framework

Promoting efficient use of geographic telephone numbers (Implementing a pilot scheme to charge for certain geographic numbers and making a limited quantity of 100-number blocks available for allocation)

Securing the Universal Postal Service – Safeguard cap for Large Letters and packets

Assessment of future mobile competition and award of 800 MHz and 2.6 GHz

Coexistence of new services in the 800 MHz band with digital terrestrial television

Review of the Ofcom Designation of the Authority for Television On Demand

Decision to vary Everything Everywhere's 1800 MHz spectrum licences to allow use of LTE and WiMax technologies

Review of Alternative Dispute Resolution Schemes: Statement

Ofcom's decision to make Wireless Telegraphy Trading and Register Regulations

Television Multiplex Licence Renewal

Review of relay services: Decision on the introduction of Next Generation Text Relay

Guidance for broadcast coverage of the 2012 Police and Crime Commissioner Elections

Ofcom allows Royal Mail's 'delivery to neighbour' scheme

Securing long term benefits from scarce low frequency spectrum: UHF strategy statement

Programme Making and Special Events – high power PMSE applications in the lower two megahertz of Channel 38 (606-614 MHz)

An exception to Royal Mail's universal service obligation – no universal service day for the day after the Battle of the Boyne bank holiday in Northern Ireland

A review of the Ofcom Rules on Party Political and Referendum Broadcasts and Proposed Ofcom Guidance for broadcast coverage of elections

End-to-end competition in the postal sector

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**Ofcom consultations published in 2012/13 which included an impact assessment and where no statement has been published**

Online Infringement of Copyright: Implementation of the Online Infringement of Copyright (Initial Obligations) (Sharing of Costs) Order 2012

Online Infringement of Copyright and the Digital Economy Act 2010 – Notice of Ofcom’s proposal to make by order a code for regulating the initial obligations

Simplifying Non-geographic Numbers – Detailed proposals on the unbundled tariff and Freephone

Service Charge Caps for 09 and 118 Services Consultation on maximum Service Charges for PRS and Directory Enquiries services in the unbundled tariff regime

Regulatory financial reporting: a review

Glasgow 2014 Commonwealth Games

The 0500 Number Range: Proposal for the withdrawal of 0500 Freephone telephone numbers

TV white spaces – A consultation on white space device requirements

Variation of 28 GHz Broadband Fixed Wireless Access Licences

Price rises in fixed term contracts

Safeguard cap for Second Class Large Letters and packets

Extending DAB Services in Northern Ireland – Request to extend coverage area of national radio multiplex service

Postcode Address File

Changes to BT and KCOM’s regulatory and financial reporting 2012/13 update

Variation of 900 MHz, 1800 MHz and 2100 MHz Mobile Licences

Measuring mobile voice and data quality of experience

Review of the fixed narrowband services markets

Notice of proposals to make the Wireless Telegraphy (Licence Charges) (Amendment) Regulations 2013

Award of the 600 MHz spectrum band – Including request to stakeholders to notify intention to apply

Emergency call handling agent performance – Proposed guidelines with respect to the handling of emergency calls and compliance by communication providers with General Condition 4

Review of the Metering and Billing Direction

Regulation of the provision of post boxes

Channel 3 and Channel 5: proposed programming obligations

Spectrum pricing for terrestrial broadcasting

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## Annex: Investigations programme

Ofcom's investigations programme deals with complaints about anti-competitive behaviour, breaches of certain regulatory rules and regulatory disputes. The following table shows Ofcom's activities in conducting enquiries and investigations during 2012/13 and how we have performed against our statutory and published targets. This reflects the picture as at 31 March 2013.

It should be noted that the number of cases recorded in the table tends to be small and the reported KPIs can be volatile as a result. More information on the investigations programme is set out in our six-monthly reports, Ofcom's Investigations Activity (<http://stakeholders.ofcom.org.uk/enforcement/competition-bulletins/six-monthly-roundup-complaints/>).

The data in the table below covers the performance of both the Competition Group Investigations Team and the Consumer Protection Team.

Activity and target	Performance against targets	Ongoing activity
<b>Enquiries</b>		
<ul style="list-style-type: none"> <li>Completion within 15 working days</li> <li>Completion within eight weeks for competition law</li> </ul>	<ul style="list-style-type: none"> <li>12 enquiries were concluded in 2012/13 (four led to disputes being accepted, one led to an own-initiative investigation, one was withdrawn and six resulted in no further action).</li> <li>11<sup>1</sup> of the 12 enquiries (92%) were completed within target.</li> </ul>	<ul style="list-style-type: none"> <li>One competition law enquiry was ongoing at the year end and was within target.</li> </ul>
<b>Disputes</b>		
<ul style="list-style-type: none"> <li>Completion within four months</li> </ul>	<ul style="list-style-type: none"> <li>11 disputes were handled in the course of the year.</li> <li>Six disputes were resolved in the year.</li> <li>One of the resolved disputes was concluded within target – exceptional circumstances applied to each of the other five.</li> </ul>	<ul style="list-style-type: none"> <li>Five disputes were ongoing at end of the year.</li> <li>Two were within target.</li> <li>Exceptional circumstances apply to each of the three other disputes.</li> </ul>
<b>Competition law investigations</b>		
<ul style="list-style-type: none"> <li>No specific 'one size fits all' target. Indicative timetables on a case-by-case basis to be published going forward.</li> </ul>	<ul style="list-style-type: none"> <li>No investigations were opened or closed during the year.</li> </ul>	<ul style="list-style-type: none"> <li>There was one ongoing investigation at the year-end, which has exceeded its target.</li> </ul>
<b>Other investigations and enforcement programmes</b>		
<ul style="list-style-type: none"> <li>Individual investigations have a target of completion (ie the issuing of a first notification or closure) within six months. Enforcement programmes are not subject to time targets.</li> </ul>	<ul style="list-style-type: none"> <li>Two investigations were opened and one was closed in 2012/13.</li> <li>The one closed investigation exceeded target.</li> <li>One enforcement programme was opened and one was closed in 2012/13.</li> </ul>	<ul style="list-style-type: none"> <li>There were two ongoing individual investigations at the end of 2012/13, both of which were within target.</li> <li>In addition, there were six ongoing enforcement programmes.</li> </ul>

<sup>1</sup> Includes one enquiry for which Ofcom set an extended target at the outset due to the Christmas and New Year holiday period

# Annex: Broadcasting standards

Ofcom has a statutory duty under the Communications Act 2003 to establish procedures for the handling and resolution of complaints from listeners and viewers about radio and television programmes broadcast on services licensed by Ofcom, and the BBC and S4C (with certain exceptions).

All complaints are important to Ofcom as they help us to understand whether a broadcaster may be failing to comply with rules in the Broadcasting Code<sup>1</sup>, or other Ofcom codes or licence conditions. Ofcom may launch investigations on its own initiative as well as launching investigations following the assessment of complaints. Ofcom handles complaint-led investigations and self-initiated investigations under the same procedures.

Individual complaints received by Ofcom are assigned to cases. A case is opened when Ofcom is assessing a specific programme or issue and may consist of one or more complaints. A total of 6,324 cases (which comprised 16,334 complaints) were closed in the period under review.

## Standards

### Initial assessment of complaints

All complaints are handled under Ofcom's procedures for investigating breaches of content standards for television and radio<sup>2</sup>.

Ofcom assesses every complaint it receives. Based on an initial assessment of the complaint and a consideration of the related television or radio content, Ofcom will consider whether there may have been a breach of the Broadcasting Code (or other Ofcom codes or licence conditions). If not, Ofcom will decide not to investigate further and publishes this decision in its *Broadcast Bulletin*<sup>3</sup>.

A total of 6,141 cases (16,151 complaints) were assessed in this way during the reporting period. Ofcom found that:

- 288 cases (3,910 complaints) raised substantive issues that warranted further investigation; and
- 5,853 cases (12,241 complaints) did not require further investigation or fell outside Ofcom's remit.

Ofcom aims to make an initial assessment of all complaints within 15 working days. In the period between 1 April 2012 and 31 March 2013, Ofcom assessed complaints on average within 5.4 working days.

## Investigations

If a case raises potentially substantive issues, Ofcom will investigate the matter further to decide whether a breach of the Broadcasting Code (or other Ofcom codes or licence conditions) has occurred. An investigation may consist of one or more related cases involving the same broadcaster.

A total of 266 investigation cases were completed in the period between 1 April 2012 and 31 March 2013. Ofcom found that:

- 144 investigated cases resulted in breaches of the Broadcasting Code (or other Ofcom codes or licence conditions) being recorded;
- 16 investigated cases were resolved; and
- 106 investigated cases were not in breach of the codes.

Ofcom aims to complete those cases that it takes forward for investigation within 50 working days. In the period between 1 April 2012 and 31 March 2013, Ofcom completed investigations on average within 45.7 working days.

<sup>1</sup> Available at: <http://stakeholders.ofcom.org.uk/broadcasting/broadcast-codes/broadcast-code>

<sup>2</sup> Available at: <http://stakeholders.ofcom.org.uk/broadcasting/guidance/complaints-sanctions/standards>

<sup>3</sup> Available to view at: <http://stakeholders.ofcom.org.uk/enforcement/broadcast-bulletins>



## Fairness and Privacy

Fairness and Privacy complaints are complaints about unjust or unfair treatment in programmes, or about unwarranted infringements of privacy in programmes (or in connection with the obtaining of material included in them). These complaints are normally made by individuals or organisations participating in or otherwise directly affected by programmes as broadcast, or in the making of programmes.

A total of 183 complaints relating to Fairness and Privacy were closed.

## Assessment and entertainment

Ofcom assesses every Fairness and Privacy complaint it receives to decide whether or not to 'entertain' the complaint. This assessment is based on whether: the complainant is the 'person affected' and able to make the complaint; the matter complained of is the subject of proceedings in a court of law in the UK; or the complaint is frivolous.

A total of 183 Fairness and Privacy complaints were assessed in the period between 1 April 2012 and 31 March 2013. Ofcom decided that:

- 58 complaints were entertained; and
- 125 complaints were not entertained or discontinued before entertainment.

Ofcom aims to assess and decide whether to entertain Fairness and Privacy complaints within 25 working days of receipt of the complaint and any further information requested from the complainant. In the period between 1 April 2012 and 31 March 2013, Ofcom assessed and decided whether to entertain Fairness and Privacy complaints on average within 15.5 working days.

## Adjudications

If a Fairness and Privacy complaint is entertained by Ofcom, then it will investigate the matter further to decide whether a breach of the Broadcasting Code has occurred and, if so, it will uphold the complaint. Ofcom will then make its final adjudication.

A total of 58 complaints were adjudicated upon in the period under review. Ofcom decided that:

- nine complaints were upheld (of which two were partially upheld);
- 35 complaints were not upheld;
- six complaints were resolved (following appropriate action taken by the broadcaster); and
- eight complaints were discontinued after entertainment.

Ofcom aims to complete the consideration and adjudication of Fairness and Privacy complaints within 90 working days of the complaint being entertained. In the period between 1 April 2012 and 31 March 2013, Ofcom completed the consideration and adjudication of Fairness and Privacy complaints on average within 85.4 working days.

## Sanctions

Where Ofcom decides that a broadcaster has breached the Broadcasting Code or other relevant Ofcom code or licence condition, and it considers the breach to be serious, deliberate, repeated and/or reckless, it may consider whether to impose a statutory sanction on the broadcaster.

The range of sanctions available to Ofcom include a decision to: issue a direction not to repeat a programme or advertisement; issue a direction to broadcast a correction or a statement of Ofcom's findings; impose a financial penalty<sup>1</sup>; shorten or suspend a licence; and revoke a licence (not applicable to the BBC, S4C or Channel 4).

During the period between 1 April 2012 and 31 March 2013, Ofcom imposed the following statutory sanctions:

- E Entertainment UK Limited in respect of its service E! Entertainment – £40,000 and a direction to transmit Ofcom's statement of findings on one occasion;
- Bidity Limited in respect of its service Al-Alamia TV – £30,000;
- Al Mustakillah Television Limited in respect of its service Al Mustakillah Television – £25,000;
- Sunrise TV Ltd in respect of its service Sunrise TV – £20,000;
- Dama (Liverpool) Limited in respect of its service Aden Live – £10,000 and a direction to transmit Ofcom's statement of findings on one occasion; and
- Radio Asian Fever Community Interest Company in respect of its service Radio Asian Fever (Leeds) – £4,000 and a direction to transmit Ofcom's statement of findings on one occasion.

<sup>1</sup> All financial penalties imposed by Ofcom are held in an account with Government Banking Services (GBS) for the benefit of the Exchequer. Funds are transferred to the HM Treasury GBS account for direct use by the Exchequer, or distributed to relevant Consolidated Funds. Ofcom neither receives financial benefits from nor makes use of any financial penalties received.

# Spectrum engineering and enforcement – key performance indicators

## Main activities

Work Programme Activity/Incident		April 12 – March 13	April 11 – March 12
Interference cases received	Domestic cases *	728	988
	Business Cases	1,163	1,283
	Not specified	61	241
Baldock: spectrum activities		4,416	4,293
Enforcement cases opened		821	674
Radio system compliance inspections completed		616	215
Successful prosecutions for criminal spectrum activity		10	12
Unsuccessful prosecutions for criminal spectrum activity		0	0

\* Domestic Cases relate to interference affecting radiocommunications equipment used in a domestic environment.

KPI1 Time to First Visit: The time take from reporting a complaint of interference to the time our engineer arrives on site to diagnose the problem (for those cases where a field visit is required).

KPI 2 Resolution: The time taken from reporting a complaint of interference to the time the customer is advised that the case is resolved.

## Key performance indicators (interference cases)

Case Priority	KPI	Target	Quality of Service Target Achieved	
			April 12 – March 13	April 11 – March 12
Priority 1	First Visit	8 hours	100%	90%
	Resolution	2 calendar days	100%	100%
Priority 2	First Visit	18 hours	96%	94%
	Resolution	3 calendar days	98%	97%
Priority 3	First Visit	2 working days	97%	92%
	Resolution	6 working days	93%	94%
Priority 4	First Visit	5 working day	97%	88%
	Resolution	20 working days	94%	97%
Priority 5	First Visit	15 working days	98%	93%
	Resolution	40 working days	97%	98%
Priority 6	First Visit	n/a	n/a	n/a
	Resolution	60 working days	98%	97%

# Spectrum licensing

## Category A

Licences that involve no frequency assignment, site clearance or international co-ordination	Licences issued April 12 – March 13	Licences issued April 11 – March 12	Total on issue as at 31 March 13
Business Radio Light – Simple UK (no base station)	1,503	1,445	9,190
Business Radio Simple Site	601	606	7,557
Business Radio Suppliers Light	79	74	655
Fixed Wireless Access (5.8 GHz)	64	51	350
GNSS Repeater	32	–	17
Police and Fire	14	1	138
<b>Subtotal for Business Radio products</b>	<b>2,293</b>	<b>2,177</b>	<b>17,907</b>
Radar Level Gauge	0	0	124
CB, Amateur & Maritime	25,748	24,409	206,682
<b>Total for Category A</b>	<b>28,041</b>	<b>26,586</b>	<b>224,713</b>
KPI for Category A (100% in 7 days)	97%	97%	–
KPI for Category A (CB, Amateur & Maritime) (100% in 10 days)	99%	97%	–

## Category B

Licences that involve frequency assignment, but no site clearance or international co-ordination	Licences issued April 12 – March 13	Licences issued April 11 – March 12	Total on issue as at 31 March 13	
Automatic Identification System	33	34	184	
Coastal Station Radio (International)	23	31	487	
Coastal Station Radio (UK)	36	41	416	
Coastal Station Radio (Marina)	42	46	429	
Coastal Station Radio (Training School)	31	29	276	
Maritime Radio (Suppliers & Demonstration)	7	4	86	
Maritime Nav aids and Radar	10	2	113	
Differential Global Positioning System	0	0	6	
<b>Subtotal for Deregulation &amp; Contracting-Out products</b>	<b>182</b>	<b>187</b>	<b>1,997</b>	
Business Radio Technically Assigned	2,305	2,689	27,000	
Business Radio Area Assigned	34	47	199	
Coastal Station radio (UK) Area Defined	1	–	1	
Coastal Station radio (International) Area Defined	1	–	2	
Ground Probing Radar	18	23	153	
Scanning Telemetry	5	10	29	
Self co-ordinated links	81	8	94	
<b>Subtotal for Business Radio products</b>	<b>2,445</b>	<b>2,777</b>	<b>27,478</b>	
<b>Total for Category B</b>	<b>2,627</b>	<b>2,964</b>	<b>29,475</b>	
KPI for Category B	90% in 21 days	98%	99%	–
	100% in 42 days	99%	99%	–

## Category C

Licences that require frequency assignment, and site clearance and/or international co-ordination		Licences issued April 12 – March 13	Licences issued April 11 – March 12	Total on issue as at 31 March 13
Fixed Links		2,499	1,820	32,459
Satellite (Permanent Earth Station)		34	28	146
Satellite (Transportable Earth Station)		97	100	115
Satellite (Earth Station Network)		15	6	62
<b>Total for Category C</b>		<b>2,645</b>	<b>1,954</b>	<b>32,782</b>
KPI for Category C	90% in 42 days	98%	99%	–
	100% in 60 days	99%	99%	–

## Test and development (T&D) licences

	Licences issued April 12 – March 13	Licences issued April 11 – March 12	Total on issue as at 31 March 13
Non-Operational Development Licence	402	382	274
Non-Operational Temporary Licence	110	106	64
<b>Total for T&amp;D</b>	<b>512</b>	<b>488</b>	<b>338</b>
KPI for T&D (100% in 60 days)	100%	100%	–

## Mobile and wireless broadband licences <sup>1</sup>

Licences issued through spectrum auction or award processes	Licences issued April 12 – March 13	Licences issued April 11 – March 12	Total on issue as at 31 March 13
Public Wireless Networks <sup>2</sup>	1	–	4
3G Cellular Telephones <sup>3</sup>	–	–	4
Spectrum Access – Channel Tunnel	1	–	1
Spectrum Access 800MHz / 2.6 GHz	5	–	5
Spectrum Access 412 – 414 MHz	–	–	1
Spectrum Access 1452 – 1492 MHz	–	–	1
Concurrent Spectrum Access 1781-1785 MHz	–	–	12
Spectrum Access 1785 MHz, Northern Ireland	–	–	1
Spectrum Access 3.5, 3.6, 10, 28, 32 and 40 GHz	–	–	12
Broadband Wireless 28 GHz	–	–	15
<b>Total for Mobile and Wireless Broadband</b>	<b>7</b>	<b>–</b>	<b>56</b>

1 Licences varied and/or re-issued, or fully traded from one company to another, are not included in these figures.

2 Additional 1800 MHz licence created by trade from to Hutchison 3G from EE, whose two licences in the band (former T-Mobile + Orange) were merged.

3 EE's two licences in the 2100 MHz band (former T-Mobile + Orange) were merged.

### Channel Islands and Isle of Man licences

Licence applications made via local Regulators	Licences issued April 12 – March 13	Licences issued April 11 – March 12	Total on issue as at 31 March 13
2G Cellular Telephones, Channel Islands and Isle of Man	–	–	8
3G Cellular Telephones, Channel Islands and Isle of Man	–	–	9
Spectrum / Wireless Access 3.4, 3.6, 10 and 28 GHz Channel Islands and Isle of Man	–	–	8
<b>Total for Channel Islands and Isle of Man</b>			<b>26</b>

### Digital dividend spectrum licences

Spectrum freed up for new uses as a result of digital switchover.

DDR GI Licences issued through spectrum award processes	Licences issued April 12 – March 13	Licences issued April 11 – March 12	Total on issue as at 31 March 13
Spectrum Access 541-55MHz (Cardiff)	–	–	1
Spectrum Access 758-766MHz (Manchester)	–	–	1
<b>Total for Digital Dividend licences</b>	–	–	<b>2</b>

### London 2012 Olympic Games and Paralympic Games licences

	Licences issued April 12 – March 13	Licences issued April 11 – March 12	Total on issue as at 31 March 13
Total licences for London 2012 Olympic Games and Paralympic Games	5,858	N/A	0

A full breakdown of licences issued for the London 2012 Games is given in our report *Ofcom and the London 2012 Olympic and Paralympic Games*, published on our website.

### Non-discretionary spectrum licences

The Civil Aviation Authority (CAA) issues aircraft licences and the Joint Frequency Management Group (JFMG) issues licences and authorisations for outside broadcasts and programme-making and special events.

Partners' Activity	Licences issued April 12 – March 13	Licences issued April 11 – March 12	Total on issue as at 31 March 13
JFMG issues Licences for Programme-Making & Special Events	4,648	4,019	5,061
KPI for JFMG (100% in 7 days)	100%	100%	–
CAA issues Licences for Aeronautical <sup>1</sup>	4,555	15,074	13,855
KPI for CAA (100% in 7 days)	79%	75%	–
<b>Total</b>	<b>9,203</b>	<b>16,925</b>	<b>18,916</b>
<b>TOTAL NUMBER OF LICENCES – ALL CATEGORIES</b>	<b>48,893</b>	<b>51,085</b>	<b>306,308</b>

<sup>1</sup> Aeronautical licences changed to a 3-year renewal period.

# Annex: Sustainability report

This section presents sustainability data and financial costs in more detail.

Cost and consumption information for Bristol, Caterham, Leeds, Nottingham, Peterborough and Wyndham House has been included where applicable. These offices have been closed following a rationalisation of Ofcom's property portfolio.

## Greenhouse gas emissions

			2008/9	2009/10	2010/11	2011/12	2012/13
<b>Non-Financial Indicators (tonnes CO<sub>2</sub>e)</b>	<b>Scope 1</b>	Gas	189	192	239	143	201
		Oil	41	14	24	26	23
		Fleet Fuel	259	259	233	233	211
	<b>Scope 2</b>	Electricity	1,844	1,791	1,768	1,533	1,426
	<b>Scope 3</b>	Business Travel	453	371	375	405	437
		– Air	262	148	166	188	242
		– Domestic	18	20	11	11	14
		– Short haul	148	81	103	147	154
		– Long haul	96	47	51	29	74
		– Rail/bus/tube	111	109	93	117	115
– Car/Motorbike/Cycle		64	104	112	97	78	
	– Taxis	17	10	4	3	3	
<b>Related consumption data</b>	<b>Scope 1</b>	Gas (kWh)	923,936	941,947	1,185,315	711,692	984,238
		Gas per FTE (kWh)	1,081	1,083	1,650	914	1,262
		Oil (litres)	13,508	4,500	7,953	8,500	7,500
		Fleet Fuel (litres)	96,964	96,964	87,320	87,206	78,923
	<b>Scope 2</b>	Electricity (kWh)	3,388,264	3,291,355	3,370,121	2,921,480	2,740,678
		Electricity per FTE (kWh)	3,963	3,784	4,692	3,752	3,514
<b>Financial Indicators</b>	<b>Scope 1</b>	Gas	£44,352	£41,431	£49,655	£25,432	£34,991
		Oil	£1,940	£2,262	£5,510	£6,827	£7,081
		Fleet Fuel	£112,491	£112,491	£109,219	£123,748	£113,770
	<b>Scope 2</b>	Electricity	£432,980	£501,465	£458,675	£330,763	£301,645
	<b>Scope 3</b>	Business Travel	£987,034	£820,896	£627,606	£713,021	£705,867
		– Air	£454,839	£330,286	£194,477	£239,722	£280,526
		– Rail/bus/tube	£282,483	£258,160	£233,081	£297,685	£276,531
		– Car/Motorbike/Cycle	£77,176	£126,424	£150,046	£129,466	£104,276
		– Taxis	£172,536	£106,026	£50,002	£46,148	£44,534

**Scope 1** – This covers direct consumption of gas and oil, and fuel consumption from Ofcom's fleet cars.

Gas consumption data across all years cover Ofcom's main office in London, Belfast, Birmingham, Haydock and Livingston. For 2008/9, 2009/10 and 2010/11 this also includes cost and consumption data from offices in Bristol, Caterham and Peterborough where available. Gas consumption is dependent on weather conditions.

Oil consumption data relate only to Ofcom's office in Baldock.

Ofcom pays for diesel fuel for its fleet cars using fuel cards, and consumption is recorded and monitored on a monthly basis. Fuel consumption from our fleet cars is largely dependent on demand for our enforcement services. Fuel data were not available for the 2009/10 financial year, so we have assumed that fuel consumption was the same as for the 2008/9 financial year.

Fuel consumption for 2012/13 includes fuel used for the purpose of providing spectrum services for the 2012 Olympic Games and Paralympic Games.

**Scope 2** – This covers electricity supplies to Ofcom's offices. Electricity data across all years cover Ofcom's main office in London, Baldock, Belfast, Birmingham, Bristol, Cardiff, Glasgow, Haydock, Livingston and some Remote Monitoring Direction Finding sites around the UK. For 2008/9 this also

includes cost and consumption data from offices in Caterham, Leeds, Nottingham, Peterborough and Wyndham House where available. For 2009/10, 2010/11 and 2011/12 it also included consumption from an office in Caterham.

For 2010/11 onwards it also includes consumption from our Project Park office in London. Electricity consumption is dependent on weather conditions.

**Scope 3** – Business travel financial data have been obtained from our SAP reporting system and includes travel by all colleagues regardless of where they are located. We have converted taxi and rail travel financial data into distances using guidance from the Carbon Trust Standard, and car travel financial data into distances using data from expense claims for mileage.

Air travel data have been obtained directly from our business travel provider, and categorised into domestic, short haul and long haul flights as per Defra flight distance guidance.

## Waste minimisation and management

Waste consumption data for all years relate to Ofcom's main office in London, and for 2010/11 onwards also includes data from our Project Park office in London. Accurate waste consumption data are not available for other Ofcom offices, but the associated waste disposal costs have been included. Ofcom pays an overall waste management fee which cannot be attributed to individual waste categories. Ofcom operates on a 'zero waste to landfill' basis, and all waste is recycled or incinerated with energy recovery.

We have retrospectively included ICT waste data for the 2011/12 financial year as these were not available at the time of 2011/12 reporting.

## Finite resource consumption

Water data across all years cover Ofcom's main office in London, Baldock, Birmingham, Bristol and Haydock. For 2008/9, 2009/10 and 2010/11, it also includes consumption from offices in Caterham, Nottingham, Peterborough and Leeds, where available. For 2010/11 onwards it also includes consumption from our Project Park office in London. Water charges for other offices are included in the service charge and therefore cannot be analysed. Water consumption is limited to operational use, including a catering facility in Ofcom's London headquarters.

Waste minimisation and management		2008/9	2009/10	2010/11	2011/12	2012/13
<b>Non-Financial Indicators (tonnes)</b>	Total waste	100	156	150	159	166
	Waste sent to landfill	0	0	0	0	0
	ICT waste recycled/re-used	0	0	0	8	2
	Waste recycled/re-used	80	92	83	89	91
	Waste composted	4	10	10	9	13
	Waste incinerated with energy recovery	16	54	57	53	60
	Waste incinerated without energy recovery	0	0	0	0	0
	Total waste per FTE	0.117	0.180	0.209	0.204	0.213
<b>Financial Indicators</b>	Total waste	£63,828	£56,181	£62,256	£53,345	£46,068

Finite Resource Consumption		2008/9	2009/10	2010/11	2011/12	2012/13
<b>Non-Financial Indicators (m3)</b>	Water consumption	9,263	9,915	10,495	7,715	9,454
	Water consumption per FTE	10.83	11.40	14.61	9.91	12.12
<b>Financial Indicators</b>	Water	£28,065	£21,505	£18,573	£22,771	£26,610

### Notes

- The above tables have been prepared in accordance with guidelines laid down by the Treasury in 'Public Sector Annual Reports: Sustainability Reporting' published [http://www.hm-treasury.gov.uk/frem\\_sustainability.htm](http://www.hm-treasury.gov.uk/frem_sustainability.htm).
- All information conforms to the normal public sector financial year of 1 April to 31 March.
- Defra conversion factors have been used to calculate carbon emissions figures.
- Emissions are not weather corrected.
- We only report energy and water consumption in buildings where we are directly billed and responsible for the payment.
- We only report our waste consumption in buildings where we receive data from a waste management company.
- Where utility bills had not yet been received, consumption was estimated based on previous years' data.
- Certain prior-year figures have been restated in 2012/13 due to new data now available and errors of omission or calculation.
- Fleet fuel and business travel CO<sub>2</sub>e were stated in kgs in the 2011/12 sustainability report. These figures have been re-stated in tonnes in the 2012/13 sustainability report.

# Glossary

**2G** Second generation of mobile telephony systems. Uses digital transmission to support voice, low-speed data communications, and short messaging services.

**3G** Third generation of mobile systems. Provides high-speed data transmission and supports multimedia applications such as full-motion video, video-conferencing and internet access, alongside conventional voice services.

**4G** The fourth generation of mobile phone technology. It allows faster data transmission and download speeds than 3G networks.

**Bit-rates** The rate at which digital information is carried within a specified communication channel. Broadband speeds are commonly measured in Mbit/s.

**Community radio** Refers to radio stations that typically cover a small geographical area with a coverage radius of up to 5km and run on a not-for-profit basis.

**DCMS** Department for Culture, Media and Sport.

**Digital switchover** The process of switching over the analogue television or radio broadcasting system to digital.

**DTT** Digital terrestrial television. The television technology that carries the Freeview service.

**End-to-end competition** This is where commercial postal operators collect, process and deliver mail directly to the recipient without the need to use Royal Mail's network.

**IPTV** (internet protocol television) Television services delivered through the internet rather than traditional means, such as terrestrial, satellite or cable.

**ISP** Internet service provider. A company that provides access to the internet.

**Leased line** A transmission facility which is leased by an end user from a public carrier, and which is dedicated to that user's traffic.

**LLU (local loop unbundling)** LLU is the process whereby the incumbent operators (in the UK it is BT and Kingston Communications) make their local network (the lines that run from customers premises to the telephone exchange) available to other communications providers. The process requires the competitor to deploy its own equipment in the incumbent's local exchange and to establish a backhaul connection between this equipment and its core network.

**Local loop** The access network connection between the customer's premises and the local PSTN exchange, usually a loop comprised of two copper wires.

**Long term evolution (LTE)** LTE standards make efficient use of radio spectrum, and so are ideally suited for high bandwidth data services, such as video streaming, email, GPS and mapping services and social networking sites.

**Mobile broadband** Various types of wireless high-speed internet access through a portable modem, telephone or other device.

**Multiplex** Digital Terrestrial Television services are transmitted using a 'multiplex' structure, with each multiplex containing a number of concurrent TV services, as well as radio stations and text services. These services are digitally combined into a single signal to form the transmitted multiplex.

**Narrowband** Landline voice telephone calls and the wholesale services that make them possible.

**Net neutrality** The principle that all traffic on the internet should be treated equally, regardless of content, site or platform.

**Next generation core networks (NGN)** Internet protocol-based core networks which can support a variety of existing and new services, typically replacing multiple, single service legacy networks.

**Next generation access networks (NGA)** New or upgraded access networks that will allow substantial improvements in broadband speeds and quality of service compared to today's services. This can be based on a number of technologies including cable, fixed wireless and mobile. Most often used to refer to networks using fibre optic technology.

**Service provider** A provider of electronic communications services to third parties, whether over its own network or otherwise.



**Silent call** An incoming telephone call where there is no-one on the other end of the line.

**Slamming** Where a consumer is switched to a different supplier of a communications service without consent.

**Superfast broadband** Broadband services allowing speeds of over 30Mbit/s.

**Text relay** A service which allows people with hearing and speech impairments to communicate with others through telephone or textphone equipment.

**Unbundled** A local exchange that has been subject to local loop unbundling (LLU).

**VoD (Video on demand)** A service or technology that enables TV viewers to watch programmes or films whenever they choose to, not restricted by a linear schedule.

**White space technology** This technology uses gaps in radio spectrum, called 'white spaces', which exist in between frequency bands. Use of these white spaces will allow devices to transmit and receive wireless signals for applications different from those for which the band is primarily reserved and is a means of meeting the growing demand for spectrum in the UK.



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